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## **East Europe**

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# East Europe

JPRS-EER-91-016

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## BULGARIA

### Minister of Culture Dimov Interviewed

91BA0216A Sofia DUMA in Bulgarian 7 Jan 91 pp 1-2

[Interview with Minister of Culture Dimo Dimov by Violeta Simeonova; place and date not given: "Culture Minister Dimo Dimov on the Nation's Culture"]

[Text] [Simeonova] Was it vanity that made an actor of your caliber agree to become minister of culture?

[Dimov] To a certain point, yes. But I would never have done it if I had not had some knowledge of the culture administration field. In addition to this, many other things, which are acquired through practice, are necessary. Anyway, one sees vanity even in the National Assembly and the Council of Ministers. At times, men really are more vain than women. In any case, I am an actor; for me, the stage is exciting.

[Simeonova] The results of a recently published sociological poll showed that the majority of people have stated they have no need for culture.

[Dimov] What a pity for such a society. Of course, it depends on what you call society.

[Simeonova] Under the conditions of the present total economic crisis, who can preserve our culture and its past accomplishments?

[Dimov] Society itself, which needs culture, and the people who need culture. The people who make culture are part of the nation's culture. If I accepted the position of minister, it is because I insist on my point of view from "Apolonia," in that culture and art must develop on an equal basis and together. Those who have no need for culture are the geniuses who do not need to have consideration for anything and can be egoists. And they have the right to do so because they are geniuses. But I do not know any geniuses of our time. Maybe history will prove me wrong, God willing.

[Simeonova] During the elections for a new government, the highest rating was given to three ministers from the old one: you, Emilia Maslarova, and Ivan Chernozemski. What do you think of this?

[Dimov] Everyone in Bulgaria knows about soccer and culture. The rating issue is something that should not be taken too seriously. What does a high rating mean for a person who is well known as a musician and has done something for Bulgarian culture? Actually, I have been minister for three months now and have not done anything during this time. I studied and prepared myself, something everyone has to do. I feel that my rating will decrease considerably because the things I will do first will be quite unpopular and will harm many people's interests.

During times of great change, an individual could suffer quite frequently without being guilty of anything. Now is

the time for decisive changes, and this very often "chops off" heads even though no one wants to be among those who lose their individuality.

[Simeonova] Nowadays it is not only individuals who are in danger but, for example, our libraries as well. They have been left without subscriptions for foreign publications for now....

[Dimov] I feel that the threat will not come true. This is something we will not allow and will find a way to overcome. The fact that the present time is horrible, however, is clear. This is a question where a sensible government knows where to cut and where to preserve the roots. I would like to believe that our Cabinet, organized with a great deal of work, will find the common road in spite of the many earthquakes. The reforms that are necessary mean that the interests of some of us, or rather entire areas in the life of the nation, will suffer.

I tell my colleagues very frequently that, when you talk of culture, medical supplies, meat, people who may die, it is all one and the same. It seems to them that I speak in dissonance because culture cannot die. This is precisely the error. There are things in culture that, if allowed to die, will take decades to be revived. We who have cultural achievements are in danger of becoming a country of the Third World category. But not in the area of culture. If there is something that is convertible at this time, it is Bulgarian culture and, most of all, Bulgarian art.

[Simeonova] What do you expect to perish in the very beginning?

[Dimov] I don't wish for anything to perish. The only things I desire with all my heart to die are parasitic cancerous formations that have attached themselves to art and culture and drain them of their vital juices. There are whole generations of highly talented people who die without even becoming aware of their talents. Our education system is senselessly antiquated. It develops one-sided individuals; it does not open a view of the world. It leads through tunnels toward only one result—so-so professionalism.

A man of art and culture cannot allow himself to understand only his own art and whatever his livelihood depends on. It is very easy to make someone an office worker. But to mold an individual with creative imagination, to have him develop in given fields, now this I feel is more important. The teacher should not only give specific tasks but should also make him think and should show him how to acquire his information. The environment in which he grows must be filled with noble competition.

There must also be financial renumeration for whatever you are. This is our society's other error. We must create the basis for adequate opportunities and renumeration. If we do not get rid of wage-leveling, we will never get to truly reward those who are capable of more than the rest.

[Simeonova] What if they accuse you of being a minister who is for elitist culture?

[Dimov] I have always been for elitist culture. Especially when I did not have the power of administrator. But, the more I confront things, the more I see that superelitism is not created. A person is born a great individual. In this sense, we must learn to nurture and help those talents that are of value. The elitist culture of a given nation is formed with great difficulty and not in the way we have done it so far, with programs and money thrown at mediocrity. The fable about the leek pastry and the madman who eats it is still relevant.

Everything must be returned to its own place. Who creates for what reason, and who needs it? The wasteful practices of the past, where people received money without any product in exchange, without creating anything, must be stopped. I do not wish to go into details, but I feel that amateur art was an exceptionally promoted activity and, in recent years, acquired the appetite to compete with professional art and be paid as such. There are many areas in our life where wage-leveling has created the opportunity for claims on the basis of belonging to a certain party or power, and this undercuts everything that is more humble, everything that strives to find ways different from the average level of mediocrity and wage-leveling mentality. We must nurture elitism very carefully, with the clear understanding that mediocrity could sneak into even it. It is accepted very often that anything avant-garde is also elite. The avant-garde may be worldly, but the elite is always human.

[Simeonova] We are entering a period of loss of humanity and spirituality....

[Dimov] It is strange, but we lost our spirituality not immediately after the war but much later. It was stolen from us but not without our own consent. I feel that the people of our culture of that time must be treated exactly like soldiers in Vietnam because I feel that our generation will always be haunted by the syndrome of having committed treason or having compromised. This is also getting very heated up in parliament. The files. What does it mean to open files on 300 or 400 persons? They will be singled out, but what about those who are not?

I think we lack the intelligence of the great nations. Of Germany, for example, which, after World War II, made all kinds of efforts to save a large segment of its capable people. Now we are taking pains to destroy those who were on the side of the government. No matter how much they have incited the nation against us, keeping in mind those who represent the humanities, the engineering thought, those are the elite who have created the true benefits for the people. Why should we destroy them? The true criminals are well known, but, unfortunately, no one touched them right away.

In other words, for me culture is not just something under the Ministry of Culture. It is the whole education cycle, the Academy of Sciences, television, radio, BTA [Bulgarian Telegraph Agency], the information system.

Culture is also the manner in which a building is restored, the smile in a store, and the relationship among people. All this is culture, and, in this respect, precisely this culture will be able to save the nation in time of crisis. It can make us become more patient and smart rather than turn us into animals.

## CZECHOSLOVAKIA

### Suggested Federation Discussed as Legal Issue

91CH0226A Prague PRITOMNOST in Czech No 6, 1990 p 6

[Article by Miroslav Jansta: "Federation, Confederation, or 'Authentic' Federation?"]

[Text] The constitutional structure of Czechoslovakia is one of the most discussed subjects today, but not always is such a discussion conducted with sufficient knowledge and relevant arguments. The fundamental problem in the concept of our federation appears to be especially the international aspect.... If we think in terms of the currently valid constitutional laws, then from the point of view of the outside world, and therefore also from the viewpoint of international law, we are a unitary state, a federation of the internal type. However, there are indications that in the emerging reality such a definition in many respects no longer applies. There are agencies being created at the national level which attest to the fact that we are transforming ourselves into a federation of an international character: Slovakia has a ministry for international contacts, in the Czech lands there is a nucleus of a similar agency called "Governmental Committee." Looked at today through the prism of constitutional laws, this is a factual development, but it is precisely this, not the changes of constitutional norms themselves, that is decisive, according to the international law, for how the outside world views the development of our constitutional arrangement. In this respect it is not important how the national governments name their new agencies but how they act, that is, how many jurisdictions they are de facto appropriating for themselves; for example, according to media reports the last visit of the Slovak Government to Poland was an official representation of the Slovak Republic, not of the CSFR. In such a situation the outside world will indeed view us as a federation of the international type, and therefore we must be interested in what will be stipulated by international law for a federation of this type.

In case our constitutional development tends toward the creation of an international federation, three states would still exist here, one central state and two constituent states. Again, it is not decisive what the constituent states will be named, whether "republics" as in the USSR (at the moment it is an international federation) or "lander" as in the FRG, or "cantons" as in Switzerland. Of fundamental importance is only the fact that the central state is always sovereign, whereas the constituent states administer only designated (by the center) internal

and external affairs. As far as external affairs are concerned, as a rule these concern frontiers and the so-called *prihranicni* [as published] questions. (The well-known membership of the Ukraine and Byelorussia in some international organizations was tolerated as an expression of the effort to broaden the voting influence in those international organizations, as well as a certain moral or political appreciation for wartime suffering.) According to international law, therefore, the constituent states of an international federation are dependent states, dependent on the central state. The central state also assumes responsibility for them in international affairs, in case a constituent state does not meet its international obligations for something in the external affairs it conducts on its own.

But if the concept of the sovereignty of the national republics is pushed through in our case, then according to international law this will be a confederation. There will be, however, only two states here—sovereign states. The agencies of the confederation only represent the common agencies of these sovereign states, from which they will receive the mandate to represent them on the international forum. The international responsibility is then born by the sovereign states themselves, and responsibility is assigned to them also for actions of the confederation agencies on the international forum. And finally, not even in this instance is the designation decisive, but rather the legal nature of the given phenomenon. We shall therefore be a confederation, even if we call ourselves an "authentic" federation, just as Switzerland is an international federation even though it is called the "Swiss Confederation."

For the time being, the clarification of the difference between a federation and a confederation as heard from the highest places sounds rather superficial. The mere statement that a confederation is based on an international treaty, and that here the normative basis of the "authentic" federation is to be the constitution, does not in fact say much.

If an actual breakup of Czechoslovakia into individual sovereign states occurs, the so-called central constitution of the "authentic" federation as conceived today would continue to be subject to the autonomous will of these sovereign states and also of each of them separately, inasmuch as it is at all possible to consider such a "constitutional act" to be a normative of an internal character. To qualify what in such a case would be an international treaty, our constitutional norms, as it happens, would not be decisive, but again only "international law", and even precisely that part of it that goes beyond the framework of the Treaty of Vienna on contractual law, which is also binding on our state.

It is therefore necessary to quickly transfer the debate on our constitutional arrangement to the legislative bodies. For the time being all discussions are conducted primarily at the governmental level. The laws on jurisdictions, which should determine definitively the nature of our state, will be adopted by the supreme legislative body,

and the Deputies must have a clear understanding of all the legal and political aspects of this problem. Because without resolving it, it will not be possible to carry out a systematic political or economic reform.

Apart from the topical internal questions, such as, for example, the division of the state budget (in a confederation the so-called central budget is superfluous), there is especially the problem of those foreign contractual obligations which the CSFR is now assuming, therefore also the obligation to protect foreign investments. In the event of the breakup of the CSFR into individual sovereign states (even if they are called "lands"), the contractual obligations that the CSFR is assuming today cannot be automatically transferred to them, precisely because they want to be sovereign. The outside world knows that this is so according to international law, and therefore it will not rush into taking the risk of making investments that are not guaranteed.

#### Moravians Suggest Union Instead of Federation

91CH0224A Prague LIDOVE NOVINY in Czech  
18 Dec 90 p 8

[Interview with Zdenek Prikryl, former chairman of the South Moravian Regional National Committee, by Milena Geussova; place and date not given: "Measure Four Times, Cut Just Once"—first two paragraphs are LIDOVE NOVINY introduction]

[Text] The territory of Moravia-Silesia ended administratively on 1 January 1949. In 1960, smaller Moravian regions were consolidated into two large regions, the South Moravian and Central Moravian. The borders of these regions insensitively divided Hana, Valassko, and Vysocina. Also, the Dacice, Svitavy, and Jemnice districts were added to Bohemia. After the November elections of this year, the last remnant of the Moravian-Silesian territory ended, along with the name of the two Moravian regions.

Our legal chambers and the Government of the Czech Republic acknowledged, back in May and June, that the elimination of this territory was an illegal act. It seems that a majority of the people in the Czech Republic realize that some form of land ordinance is necessary. In addition, Moravians think that it should happen as well.

[Geussova] I asked the chairman of the former South Moravian Regional National Committee, Zdenek Prikryl, whether there is really so much of a hurry. After all we do have a government commission that is supposed to decide everything....

[Prikryl] If possible, the decision should have been made yesterday. I think that along with self-administration for cities there should also be self-administration for territories. If a citizen is supposed to decide for himself concerning what he can and must do, he needs the right conditions to do so. No one could manage a village and

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thereby its citizens and tell them what is in their best interest. There have to be certain laws and principles, but that is all.

The clear signs of totalitarianism include centralism and concentration of power without accountability to the public. A precondition for self-administration is then full decentralization of power to lower territorial units than the state or the republic. Self-administration takes nothing away from the state. It simply means a sensible division of labor amongst territorial units. A self-administering community cannot successfully function in an external environment dominated by a centralist approach to management. Only secondarily does territorial self-administration have a cultural and ethnic importance. Therefore claims to some kind of Moravian nationhood are not the most important thing. Above city and community self-administration is territorial self-administration, to handle problems that the others cannot, such as intercommunity and intercity problems.

[Geussova] What then in your view does not belong under the control of the central authorities?

[Prikryl] We need to arrange, for instance, for the movement of water from Vira to Brno. The path crosses three districts inhabited by 750,000 people. There are other aqueducts, roads, heat from Dukovany, ecology. We are negotiating with the Germans for the construction of factories to process waste, which is economical only on a large scale, but not the largest. Why should Prague have anything to say about any of these projects?

In this country everything continues to be managed by directive. State power and administration is concentrated in the central offices to a greater extent than at any time in the past 40 years. The conceptions of several ministries are overblown. For instance, we are trying to manage from Prague 84 labor offices, and the like. Other central offices set up branch offices in the capital cities of current regions to handle regional and territorial planning activities, the enhancement and protection of the environment, financial management, budgeting, etc. This means, though, that local conflicts get escalated to the ministry level. The number of secondary decisions that will end up being made by ministries, given our experience of the 10,000 or so appeals that our regional national committee resolved each year, is staggering.

[Geussova] What type of land ordinance do you prefer?

[Prikryl] I consider the optimal solution to be a united republic with three territories.

[Geussova] But those in Slovakia probably will not agree with this.

[Prikryl] The federation status is not a good one because it is based on the principle of nationality. I am in favor of the principle of citizenship. I have never heard from friends in Slovakia that they would be opposed to this. In addition, this is an issue that we can talk more about.

[Geussova] Let us assume then that the system can be built gradually so that all the territories would not be created at once. Establishing a Moravian territory would probably not be formal from the word go. And in Bohemia I am not at all sure. And when would it be Slovakia's turn?

[Prikryl] Three united territories and one federal government. That is the future. We must, however, begin with the current reality because we are proposing to set up territorial offices in the Czech Republic. There are several variants: Prague, Bohemia, Moravia, Ostrava; or Bohemia, Prague, Moravia, Silesia; or Bohemia and Moravia; or Bohemia, Moravia, and Silesia. I think that if the federated territories idea is not adopted, then the Bohemia-Moravia territorial organization is not appropriate, because the two entities would have a difficult time agreeing. I would propose four territories, because from there you can always go to two federated territories.

[Geussova] This process would increase the number of offices, and administrative apparatus would battle for years with each other. I have the feeling that this would make things easier for you in Moravia and more difficult for us in Bohemia.

[Prikryl] A land office will not take power away from cities, communities, or districts. On the contrary it should give these entities as much authority as possible. This authority comes from government offices. Once territories acquire the proper authority, you will see that a bunch of ministries no longer have anything to do. Even under a federation, once the competency law passes several federal ministries should disband, otherwise the whole plan doesn't make sense.

[Geussova] Don't you think that the problem of authority between the federation and the republics will be replaced by arguments between the Czech Government and the new land offices?

[Prikryl] Don't forget that we cannot afford to build something from the top down. People will become radicalized if nothing happens. I also think that the problems with Slovakia happened because someone was asleep in Prague.

[Geussova] What is your view of the HSD-MS [Movement for Self-Governing Democracy—Society for Moravia and Silesia]?

[Prikryl] The movement is not led by experienced politicians and that is a disadvantage. Enthusiasm is not enough, because politics has its own logic. The movement arose shortly after the parliamentary elections, when it was learned that other political parties were not interested in the problems of Moravia. There was not much time to choose people. This was their first experience with politics, with competition, and power often attracted them. The movement has ceased developing since the spring. The leading representatives, today delegates, are no longer the leaders of the movement, nor do they represent their districts as became obvious at the

Kromeriz summit. This was one of the reasons why there was conflict between the delegates and the parliament....

[Geussova] What will become of the movement once there is a land ordinance?

[Prikryl] It will probably begin to disintegrate slowly, unless it finds some ethnic, cultural, or similar focus to its activities.

[Geussova] What about Silesia, which we have not mentioned. Will people there be satisfied to remain under Moravia? Won't a movement arise against "Brno centralism"?

[Prikryl] There would be a branch office of the land office in Silesia, just as in other large Moravian cities. I don't think that any serious problems will arise. I am no Brno patriot, but I do think that Brno is the natural center of all of Moravia. Otherwise it is clear that no decision can be uniform. People always think in terms of templates. Once there is a Moravian territory not all its districts will be the same. However, if we allow centralism to dominate in state administration much longer we will quickly see some critical situations come about in society.

#### Facts Concerning Prewar Slovakia Cited

91CH0273A Bratislava LITERARNY TYZDENNIK  
in Slovak 7 Dec 90 p 12

[Article by Sarka Hernova: "Was the First Republic a Stepmother for Slovaks?"]

[Text] Juriga's extensive article on "Slovaks in the Hungarian-Czech Context" (LITERARNY TYZDENNIK, 42 to 44/1990) certainly caught the attention of readers. I would like to say a few critical remarks with respect to the concluding portion of the article from issue No. 44 of LITERARNY TYZDENNIK, which deals with Czechoslovakia between the wars. The overall tone of the text necessarily reminded me of Communist propaganda with its emphasis on the exploiting role of the bourgeois republic—the stepmother of the working people—who were left no choice other than mass emigration. The author writes that "in the years between 1922 and 1926 alone, some 250,000 people had to emigrate from Slovakia in search of bread." I have no idea why F. Juriga needs to list false data because credible statistics exist regarding the emigration during the interwar period—statistics which are, moreover, evaluated in a mass of works by Slovak as well as Czech historians. When a publicist presents false data, doubt arises regarding his good intentions, as well as regarding the quality of the entire text. Actual data regarding the migration out of Slovakia during the period under consideration indicates that a total of 70,142 persons emigrated and 17,083 persons immigrated, so that the migration loss for Slovakia in the years 1922-26 amounted to 53,059 persons. The rate of emigration declined with the advancement of the years and in the period 1932-36 the population losses due to emigration declined to 7,427 citizens of Slovakia.

A certain role was played by the U.S. restrictions pertaining to the acceptance of immigrants—emigres more frequently headed for Canada and South America. Slovakia suffered the greatest population loss due to emigration at the turn of the century, for example, between 1900 and 1910, when these losses amounted to more than 216,000 individuals.

I also cannot agree with the author's evaluation of the economic situation in Slovakia during the interwar period. Mr. Juriga writes: "The Hungarians could not afford to liquidate Slovak industry. The Czechs could afford to do so. In the course of several years, competition by the stronger Czech industry and administrative incursions resulted in the liquidation of the Slovak industrial base." I take the liberty of noting that, during the market economy which existed in Czechoslovakia during the interwar period, the state made no incursions into entrepreneurial activities. Entrepreneurs invested in regions and branches of the economy in which they were able to anticipate making profits. This is true for all entrepreneurs, irrespective of their nationality. The coming into existence of Czechoslovakia caused Hungarian and Austrian capital to lose interest in enterprises in Slovakia (taxes, customs duties), so that a number of Slovak enterprises were compelled to restrict or halt production, dismantle equipment, and lay off employees. Czech and German capital found it more advantageous to invest in undertakings in the Czech Lands than in Slovakia after the creation of Czechoslovakia, in view of transportation difficulties in Slovakia as well as on account of less advantageous tariffs. However, these barriers were gradually lost, the opportunities to apply Slovak capital also increased, and when the economy of the Czechoslovak Republic went through two recessions employment in the production trades and in industry increased from 221,000 workers in 1921 to 247,000 workers in 1930 and 270,000 workers in 1937. The economic crisis of the 1930's did not impact Slovakia as strongly as it did the Czech Lands and new capital investments (Povazska Bystrica, Dubnica, Zilina, etc.) created favorable conditions for economic growth, which bore interest in subsequent years.

A mass of facts indicates that the establishment of Czechoslovakia was perceived by the Slovak people as an improvement on the situation and that, naturally, in the historically brief period of 20 years, only a little could be accomplished. The improvement of the position of the Slovak people was reflected in the growth of the birth rate, a decline in the death rate—the years 1921-30, for example, are a period of the greatest natural population increase for Slovakia (10.70 births per 1,000 inhabitants, as compared with 4.47 births for the period 1900-10). The level of education increased significantly, national culture developed, Slovak cities grew, as did the share of the Slovak population in them, etc. This problem is treated in adequate detail in a number of historic studies, which can be instructive.

I believe that a young and vital Slovak nation has long since found its identity and has no need for the creation

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of myths regarding its oldest history, nor is there any need for such suspicions as: "Among the people, it is being whispered and frequently also believed that Stefanik was shot on orders from Prague." I also favor the opening of the most secret safes in the interest of the truth. Sometimes, however, the true picture of the past is aided even by ordinary statistics and it is not a matter of irrelevance to look at them once in awhile.

### Visit to Ruthenian Section of Slovakia

91CH0243A Prague KVETY in Czech 14 Dec 90  
pp 31-34

[Article by Eva Hirschova: "The Roots of Andy Warhol and Vasil Bilak"]

[Text] We chose one of many villages here in northeastern Slovakia which has the word "Russian" in its name. Ruska Krajna, Ruska Bystra, Rusky Potok... The road to Ruska Poruba leads through tidy villages where some houses are decorated with the double-armed cross of the Eastern sect on their facades, among the hills covered with peaceful leafy trees, the pastures with their sheep, a pleasant landscape and indeed a particularly untamed, original wild one. The last village which we drive through is named Jakusovce. The road ends here at the white church surrounded by graveyards where in "eternal memory" rest the Michals, Vasils, Julies, and Hanas. "How do we continue on?," we ask the old man who shows up behind a flock of geese. "Leave your car here and go on foot over the hill. There is not any other way," he answers in a language which somewhat resembles Slovak, somewhat Ukrainian, as well as Russian and Polish. "You are a Slovak, are you not?" "No, I am a 'Rusnak,' a 'Rusin' [Ruthenian]," the old man says. "This is a Ruthenian village."

I put the same question a number of times. I ask children and adults, newspapermen, historians, actors, representatives, grandmothers at the marketplaces, secretaries, waiters in pubs.... There are various answers and there are likewise various opinions as to whether Ruthenians are a nation or an ethnic group and whether what is spoken around Medzilaborce, Snina, Hummeny, and Stara Lubovna is a language of its own or several dialects of Ukrainian. It seems that it is not so easy to be a Ruthenian.

"We are not pretty or rich or nice," says Mikulas Hirjak, chairman of the Ruthenian-Ukrainian Union, off the record and somewhat sadly at the conclusion of our interview. "Everyone wants us, but then when they get us..."

### A Branch on the Tree?

From archaeological finds one can determine that the East Slavic peoples began to settle the plains regions of the Trans-Carpathian area and East Slovakia in the 6th to 11th centuries. The first data on "Russian settlement" is the preserved placenames in the south such as Ruskov, Ruskovce, and Ruska, which had their origin no later

than the 12th century. The northeast at that time was sparsely settled and was a border area, a "no-man's land" at the juncture point of a strong Poland, Austria, and the Galician-Volnysky principedom. But even in the deed papers of King Ludovit II of 1361 and in the papers of Imrich Pereny confirming his ownership of the estate and the Saris castle there are mentions of the Rusins [Ruthenians]. The Ruthenians, some of whom survived centuries of "Hungarianization, Slovakization, Polishization, Ukrainianization, and Romanianization," say, along with their awakener of national consciousness, librarian, secretary of the archives in Presov, teacher, and author of a primer Alexander Duchnovic:

"I was, am, and will be a Ruthenian,"

"I was born a Ruthenian,"

"I will not forget my honorable parentage,"

"And will remain its son."

Ruthenians live in Yugoslavia, in Poland, in Hungary and there are a few villages in Romania, but they are found mainly in Trans-Carpathian Ukraine and also in East Slovakia. Below the arch of the Carpathians, around Stara Lubovna, Svidnik, Medzilaborce, Bardejov, Hummeny, and Snina, there are 266 Ruthenian villages. Of course, most of their inhabitants have Slovak or Ukrainian entered under "nationality" in their identity papers. By an administrative decision in 1951, they began to be referred to as Ukrainians instead of Ruthenians. At the elementary schools in the region the language of instruction became Ukrainian and the Russian gymnasia in Presov and Medzilaborce are becoming 11-year middle schools with Ukrainian as the language of instruction. The weekly NOVA ZITA, the monthly DRUZNO VPERED, and the literary arts magazine DUKLA are written in Ukrainian. The successful graduates of the middle schools go to study in the Ukraine and at higher schools in Kiev and Lvov.

"Our people are a branch of the Ukrainian national tree. There is nothing closer than the language that my momma speaks and the language of the poet Taras Schevchenko," opines the chairman of the Ruthenian-Ukrainian Union, Mikulas Hirjak, who is the sole representative of this minority in the Slovak National Council as the deputy for the Spoluziti [Coexistence] movement. His school diploma also bears the seal of a Ukrainian university. "For the number of inhabitants—roughly 55,000 people claim Ukrainian nationality—we have a very high ratio of intelligentsia," says Deputy Hirjak. "Unfortunately the situation with elementary schools is worse."

In 1959 there were 222 elementary schools with Ukrainian as the language of instruction. By 1990 there were only 18 of them left and another 71 taught Ukrainian as a foreign language. Besides the Taras Schevchenko high school in Presov, there are three others—in Svidnik, Medzilaborce, and Snina—where Ukrainian is taught and some subjects are presented in that language.

### And the Ruthenian Language?

"There are some attempts today to see the Ruthenians as an entirely independent nation and to put Ruthenian language back into the elementary schools, but in a literary sense this language practically does not exist. Its spoken form differs greatly from place to place. People from Osturna in Stara Lubovna okres will not understand those from Ulicska Dolina on the border of the Soviet Union. It is a dialect and we will not be expressing ourselves in it in the 21st century. Furthermore, I think that parents do not want to send their children to such schools. You know, our people have little consciousness or pride. Many Ruthenians would rather have Slovak nationality entered in their identity papers. This has certainly meant fewer problems for them."

### An Outdoor Nationality Museum and Prefab Apartment Buildings

In the town of Svidnik, a typical "monument" to socialist industrialization which in a few years changed the wooden houses of a village into a town of drab prefabricated apartment buildings, a town without a center and without roots, there is an open-air museum of old buildings. On the slope behind the amphitheater where the Ruthenian-Ukrainian folklore cultural festival is held each year there are several huts with straw roofs and thatched roofs and a beautiful three-towered church on top of the hill. Everywhere there is the same view, from the windows of the blacksmith's shop, from the home of a poor farmer, and from the schools where, along with handwriting styles, there hangs on the wall a map of prewar Europe with the tail of sub-Carpathian Ruthenia connected to the familiar outlines of our borders. The memorial to the battle of Dukla Pass and prefabricated apartment buildings from which in many cases the optimistic slogans of the builders have not yet disappeared. This is a constant reminder that these people, whether we call them Ruthenians, Ukrainians, or something else, on this land are perhaps more affected than others by the policies formulated in Pest, in Paris, in Moscow, or in Prague.

"There was about 300,000 of us before 1950. Forty years of Ukrainianization and Slovakinization has done its job. People have lost their Ruthenian consciousness, many have joined the Slovaks and were ashamed of their origins and started to speak Slovak with their children. In their identity papers 70 percent of our people have Slovak entered as their nationality. At the agencies they also said to them, 'You can have Slovak or Ukrainian as a nationality. Ruthenian does not exist!' Anyone who felt himself to be a Ruthenian was a counterrevolutionary. A large portion of our people had them put in Slovak as their nationality. There were 40,000 who chose Ukrainian," I read in the magazine RUSIN published by the Andy Warhol Society in Medzilaborce (in Cyrillic and in Ruthenian "labirsky"). The magazine RUSIN, as well as the cultural organization Ruthenian Renaissance, wants to strengthen the Ruthenian national consciousness, help

to codify the Ruthenian language, and find and support Ruthenian cultural tradition.

"Anyone who asserts that there is a Ruthenian people as such does not know history," Dr. Miroslav Sopoliga, director of the Museum of Ukrainian Culture, and his deputy and chief historian, Mikulas Rusinko, state passionately. "Ruthenian is synonymous with the word Ukrainian. The current attempts to create an independent people reminds one of the situation in 1918 when the Zemplinans did not want to join Slovakia and said that they are not Slovaks, but Slovenes. We are simply the last outpost of the East Slavs. We belong there linguistically and culturally. Back in 1919 experts from the Czech Academy of Sciences at that time wrote that the local Ruthenian language in sub-Carpathian Ruthenia indisputably belongs to the Little Russian (Ukrainian) dialect group. The East sect has always dominated here as far as religion is concerned; first the orthodox, then a unification pact was signed and the Greek Catholic religion predominated. In the 1950's for political reasons orthodox religion was administratively put in place. Now there are attempts to again return the property of the orthodox church back to the Greek Catholics."

Religious conflicts are added to the conflicts over language and history. At the beginning of the 1950's, the Greek Catholic Church was practically eradicated, the clergy imprisoned, the property handed over to the orthodox church. Today, in an attempt to rectify past wrongs, new wrongs are sometimes committed. Villages are torn apart with the orthodox not speaking to the catholics and vice versa, brothers shut the doors in each other's faces. In Stropkova the orthodox mass is served in the open air because the catholics have the church....

"We want to join Europe and we do not even know ourselves," says Mikulas Rusinko, who feels himself to be a Ukrainian despite his name, but speaks very well about the Ruthenian (or Ukrainian?) Christmas dishes—plum pudding (dried plums with beans), mushroom "macance" (a thick, sour mushroom soup), "fuce" (jam tarts). "We are unnecessarily hard on ourselves. I believe that if the Ukraine was like America on this, everyone would be Ukrainian...."

### Sleep, Little One, Sleep

Krasny Brod is a village near Medzilaborce with an abandoned monastery. This monastery is very important for the history and culture of the Trans-Carpathian Ukrainians (or Ruthenians, if you prefer). Here in 1614 for the first time there was an unsuccessful attempt to force religious unity on the people, to make catholic the orthodox rites and to Hungarianize the populace. In later years, the monastery was of course the center of the cultural life of the entire region. A divinity and philosophy school existed here where teachers were trained for the parish schools, icons were painted here, every year there was a pilgrimage.... All this and a number of other historical details were told us by the writer Michal

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Smajda, who was born in Krasny Brod, over an enormous bowl of typical "pirohy" (a noodle dough filled with cottage cheese, meat, and cabbage). He was born here in a wooden "shanty" in 1920; his father died of tuberculosis in 1936, and his mother died of the same disease in 1942. There were four children at home and Michal, as the oldest, had to take care of them. He left the local school after the fourth grade and went to herd cows in a neighboring village. But he wanted to know things, to learn.... He fled to the monastery in order to learn, but of course after a year he came back. What he knows, he studied himself. He has written five books. The last, the epic LESNI RYTIRI (Knights of the Forest), about the resistance of Rakozci II against the Hapsburgs will have about 600 pages. So far about 200 are completed in manuscript.

He worked as an agronomist in a cooperative farm, was chairman of a local national committee, and for 10 years collected ethnographic materials as an employee of the Museum of Ukrainian Culture. At the beginning of the 1960's he wrote an article against another person born in the same area, in Krajna Bystra, Vasil Bilak. They threw him out of the museum and for nine months he looked for work in vain. Finally, he worked until retirement as a night watchman. Now he is afraid that he will not be able to finish everything that he has taken on himself. His wife Julie, whom he calls Ulka in Ruthenian, has a lot of understanding for this since she feels 35 years old mentally, but what can you do about it, 70 years old is 70 years old. He has collected 3,400 lullabies, 800 of which are supposed to be entirely original, such as this one: Sleep, little one, sleep. I'll sew you a shirt, but it won't be from this. It will be from an oak leaf. "Nice, eh?," expands Michal Smajda, puckering up in a tender smile. "I have to organize everything, transcribe 9,000 sayings which I collected among the people years ago for the museum and recorded on tape. It would be a shame if these riches were lost."

Of course, it is already being lost. No one has so far gathered the Ruthenian fairy tales and myths, even though they show up here and there in magazines. Recipes for "macanky" and "strepanky" appear on the back page of the magazine DRUZNO VPERED, but there has never been a cookbook published. No one has so far put together a motion picture or at least a still photography documentary on wakes (feasts for the dead) or on a Ruthenian wedding. And the mourners themselves are dying off and guitars are being played at the weddings....

"My grandfather was a Uhrorus, my father and I Karpatorus, my son a Ruthenian-Slovak, and my grandson is already pure Slovak," Michal Smajda says somewhat bitterly, who was born in a wooden shanty and lives in a two-storied family house which he built with his own hands, rather a villa with a carefully tended garden. He did not study in any school, but he writes Ukrainian books about the Ruthenians.

### The Boomerang of the Nationalities Question

In one of the largest theaters in Europe, the recently opened new Presov theater, a further proof of the megalomania of the past regime, the Lvov Academic Theater, is the guest at the invitation of the Ukrainian National Theater in Presov. The presentation is called "Oh, the Country Rejoices." The comfortable seats covered in rose plush are all full and there is a crowd at the entrance. The performance begins with a word of greeting from the apron of the stage. A lady in a long black skirt is not entirely understood, but the words "the Ukraine's sovereignty" which she repeats several times come through very clearly. The performers from Lvov sing beautifully, present Christmas traditions, dance folk dances.... The spectators get along well with this since they baked or still bake the plaited Christmas bread at home and they know these songs. For the final song the entire audience stands up. I also stand and it seems to me that I am hearing the Ukrainian national anthem for the first time in my life.

The Ukrainian National Theater in Presov, which was started in November 1945, originally as a cooperative, wants now to change its name to the A. Duchnovic Theater. The theater building has been under renovation for over a year now and at this time plays are therefore presented in the small hall, obviously originally experimentally. The newest production is Machiavelli's "Mandragora." It is presented in Ruthenian. The theater is a touring one and four times a month it has a presentation in Presov, and 10 to 15 times in various cultural centers. Supposedly in Stara Lubovna the play will be in the Stara Lubovna dialect and in Medzilaborce in the "labirsky" dialect.... "People come to see us; we have no problems with getting an audience. In the villages they do not ask what we will present, whether it is a comedy or a drama, but whether it will be 'in our language.' Ukrainian has not taken hold as the language used for everyday communications among the people," says Jaroslav Sisak, the director who, like 90 percent of the 33-member group, graduated from the theater department in Kiev.

I did not select Vasil Rusinak either for his directly revealing name or for the fact that in the acting troupe he obviously represents the element which earlier was called the leading man. It was just that he sat down at the table in the theater club where we were talking about ethnic problems with the playwright Vasil Turok-Ketes. His speech struck me as very typical, however. "I was born in Presov. My father was a Communist and he dinned into me that we were Ukrainians. The worst was in 1968. No one would speak to us because they were against everything from the Soviet Union. When Czechoslovakia played the famous game with the Soviets and Golonka got the goal, I cried like a baby. Then it gradually began to dawn on me. I had been a Ukrainian and now I am a Ruthenian."

Vasil Rusinak says this with such conviction that I picture him dressed in white trousers with a drawstring around his waist, in an embroidered shirt, with peasant

boots on his feet rather than in jeans and a leather jacket. What importance does it have at all today to be a Ruthenian? What does it mean to be one? Do the Ruthenians perhaps want their own country? Will the Ruthenian (Ukrainian) problem be added to the Czech-Slovak-Moravian problems?

"We want a federation, a joint state of Czechs, Slovaks, and national minorities and do not have any demands," states Vasil Turok-Hetes decisively and I nod because I have not heard anything different in any of the many conversations I have had with members of this minority. "We do not need a country; we need a society of free people."

The Ukrainian National Theater has started to publish a humorist biweekly "depending (as it says in the masthead) on practically everything, even on the weather" called BUMERANG. In its introductory "Proclamation (for the time being not complete)" the editors Vasil Turok and Fedor Vico write "We think that the nationalities problem currently should be less important and we should not devote so much time and energy to it as we are now doing.... Therefore we decided here in Presov to publish a new satirical humor magazine, BUMERANG. The magazine is supposed to come out in a mixture of Slovak and Ukrainian according to the idea that what is more valuable and better will be given priority in publication."

#### Andy Warhol Did Not Make It

The construction of the noticeably copied Presov theater substantially changed the appearance of one of the main squares in the city. The monument to Alexander Duchnovic, who means the same for the Ruthenian-Ukrainians as Ludovit Stur does for the Slovaks, had to be moved out. One of the greatest sons of the nation now stands somewhat obscurely at a busy intersection outside the center of town.

It is also not going famously with the "memorial" to another great man of the Ruthenians, the Andy Warhol museum. Alexander Zozulak, the chief editor of the weekly NOVA ZITIA, who was in on the beginning of the idea for the museum and together with dr Michal Bycko and several other determined backers is pursuing it right up to today, describes to me how everything was and is.

"In the 42d issue of our weekly in 1987 I had published an interview with John Warhol, Andy Warhol's brother. John Warhol had at that time come to Mikova, from where his parents Andrej and Julie Varchol came, for the first time. Andy supposedly also had in mind to come as well. Even though he was born in Pittsburgh, where the Varchols moved at the beginning of the 1920's looking for work like many other Ruthenians, he spoke only Ruthenian with his mother and never forgot his roots. He wanted come in the spring when it would be nice, but he did not make it. He died in February of heart failure after an operation on his gall bladder. We met with John

Warhol at a private showing of an exhibition in Medzilaborce. I had an interview with him and he mentioned in it the possibility of setting up a museum for Andy, to which he would contribute some pictures, in Medzilaborce, not far from the birthplace of his parents. We started to work on it."

It was at that time not easy, three years ago, to convince the okres officials that Andy Warhol was a great artist. The term "pop art" sounded hostile to them and moreover from America.... Finally, however, the idea of a museum was put across. Of course, when John Warhol came to Medzilaborce for the second time in the spring of this year thinking that he would take part in an opening ceremony, he found only the gutted building of the old post office. One time there was no supplier, now we are out of bricks again....

In issue 7 this year of the magazine NOVA ZITIA Alexander Zozulak published his talk with Vasil Bezek, Eva Prekstova, and Helena Chomova, residents of Mikova, who recalled Julie Varcholova (supposedly she sang and painted well) and Andrej Varchol, Andy's father, at their wedding.... The article was peculiarly titled: "You Cannot Deny Your Roots."

I heard a lot about roots and about what one generation inherits from another during my travels around the Ruthenian-Ukrainian minority. I do not know how to answer the question whether one should call the people from 266 villages in East Slovakia Ruthenians or Ukrainians, or Ruthenian-Ukrainians. I do not want to and cannot be the judge in the conflicts about nationality, religion, language....

But I think that they convinced me that there are roots. And I think that more important than all the feuds and arguments is the fact that more Duchnovics and Warhols come from among them and not another Vasil Bilak.

#### Issues Involved in Language Legislation Considered

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[Article by Alexandr Stich: "Language and Law"]

[Text] Language is again the subject of politics. That brings back to life much—the good and the bad—of what thus far we have been reading in school books about past centuries. Bringing together language and law, that is, a language law, has a tradition that goes back centuries.... We can see efforts to regulate the use of language by state intervention already during the time of Charles IV, but the first clear act of this kind was the resolution of the Land Diet of 1495, according to which entries before the state court of law in the Czech lands, i.e., entries in the state records, this first important legal code of its day, could be made only in Czech. That was the first time a "state" language was proclaimed in this country. Five years later it was followed by the Vladislav Constitution as the first Czech constitution, the first legal codification

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of state law. This law directed that even foreigners must conduct proceedings before Czech state courts exclusively in the Czech language, either "on their own or with the help of whomever they can secure for themselves." This principle was later incorporated also in the municipal laws, as we can learn from the celebrated lawyer Pavel of Koldin in his "Municipal Laws of the Czech Kingdom" from 1579. The amended versions of the constitution of the Czech lands were governed by the same spirit during the entire 16th century, that is, even under the Habsburg rulers, who mostly did not even speak Czech. The situation in Moravia is illustrated by the fact that in 1610 the country administrator Karel the Elder from Zerotin rejected an official letter from the Olomouc municipal council because it was written in German; it was said to be a flagrant breach of the Czech language law, our natural, esteemed, and ancient language.... All these trends then culminated in 1615 in the resolution of the Diet of the Czech Crown Lands (therefore also of representatives of the then already heavily Germanized Silesia and Lusatia). The law contained very harsh penalties for endangering the "state" Czech language, and later emigrees (for example, Pavel Stranovsky) as well as the Revivalists would refer to it. However, the firmness of this law was not an expression of self-confidence and strength, but of concern about the destruction of the linguistic unity of the state.

A reversal occurred after the Battle of the White Mountain [1620]. The Renewed Constitution established two state languages—German and Czech (in this sequence). In municipal courts and in offices of the nobility Czech language persisted for a fairly long time, but the Czech Diet could manifest the equality of both languages only symbolically, and the state administration was becoming more and more Germanized. And then Joseph II proclaimed German to be "the state language and the mother tongue" of his realm, the "national language" of the empire. At the same time some concern for the "vernacular and regional languages" was not entirely precluded; the state had to see to the language needs of elementary education, official and court communication, health care, army, etc. Nevertheless, generally the state language was German. This situation was changed only in 1840s, particularly through the activities of Frantisek Cyril Kampelik and Karel Havlicek; all those efforts bore fruit when Ferdinand V issued a Cabinet Letter in April 1848, confirming the equality of both languages in all spheres of the state administration and public life. The Letter gave rise to a hate campaign by the Vienna press of every political orientation as well as by the Bohemian Germans.

The constitutional system in Austria was ushered into life only at the beginning of the 1860's; the constitution of 1867 returned to the equality of all languages "customary in the land," but a concretization of this constitution was not achieved. During the entire second half of that century the country was consumed by raging disputes about language. For the sake of legal questions regarding language there were demonstrations, shots

were fired, martial law proclaimed. Until at the turn of the century Vienna finally gave up and allowed matters to proceed freely.

These experiences invested Czech politics in 1918, at the time the independent state came into being. It was clear that questions of language, and especially legal problems concerning language, will represent one of the trials of the new state entity that will be impossible to avoid.

At the same time the Slovaks brought to the new state a special experience—and it was an experience brutally simple and straightforward: Ever since the 1940's, when the official language of the Kingdom of Hungary ceased to be the supranational Latin, the Slovaks were exposed in the sphere of language politics and language law to unconcealed repression and ever intensifying denationalizing pressure.

The language law of the newly established Czechoslovak state was constituted by several legislative acts. First of all, it was the 1920 Constitution, specifically its Paragraph 129. It was followed up by the special Language Law No 122 of 29 February 1920 which dealt with the legal arrangement of public language relations, but only in a framework outline.

However, the national and language problems of the Czechoslovak state were unusually complicated and sensitive. Both nations, Czech and Slovak, who were the carriers of the idea of statehood, represented approximately 65.5 percent of the population according to the 1921 census: Almost 35 percent of the population therefore was of other nationalities. A special status was held by the Ukrainian-Ruthenian ethnic group in the then Subcarpathian Ruthenia, which was, under the constitution, an autonomous territory with an assumed future Diet of its own; from the viewpoint of state law, therefore, the population of Subcarpathian Ruthenia had a different status than the minority nationalities. The main opponent of the Czechoslovak state law and language law idea was the strong German minority (23.5 percent), economically and culturally advanced, and in its feeling firmly linked to the nation which formed a state directly beyond the Czechoslovak borders. This was at the same time the numerically second largest minority in the Europe of that day (after the Ukrainian minority in Poland). Centrifugal tendencies manifested themselves also among the Hungarian minority in southern Slovakia (5.5 percent of the total population of the state). Because of this complicated situation, the procedural regulations for the language law (17/1926), the third of the mentioned legislative acts, took several years to draft.

The Czechoslovak language law was also bound by international obligations which our state accepted, particularly the St. Germain Agreement of 10 September 1919, which imposes the obligation to protect citizens of different race, language, and religion, to guarantee them equality before the law, and not to impose any language limitations in private, business, or religious intercourse,

in press and public gatherings, and in the case that some language is established by law as official, ensure citizens of different language groups an adequate opportunity to use their language both orally and in writing, particularly in schools.

The formulators of the language law in Czechoslovakia faced a number of complicated and difficult problems....

First of all, there was the problem of the state language. The Czechoslovak constitution of 1920 legally constituted this concept (using at the same time as its synonym the term "official language" taken from international treaties), by which was understood the language which the state uses as a matter of policy in its communications, unless it is specifically determined otherwise.

This concept and term itself became the target of criticism, especially from the camp of the German minority. Until the First World War, it existed in constitutional practice only in the constitution of the Hungarian state (and de facto in Prussia, where it was hiding behind the term "language for official communication"). Critics of the Czechoslovak language law used to point out the fact that a state language did not exist even in the constitutional practice of the Austrian monarchy (notwithstanding the fact that the reality was actually quite different). After the First World War, the term "state language" was used, besides us, also by the constitutions of Estonia and Austria.

However, the problem with the state language was not only conceptual and terminological but also factual. The 1920 Constitution created the legal premise of a "Czechoslovak language." In the reasoned statement as well as in legal literature it was emphasized that there exist two independent literary languages and that the official state Czechoslovak language is a legal construct, based on the closeness of both languages, their total parity and functional reciprocity. However, in practice this concept led to troublesome misunderstandings between the two nations, exacerbated by the theorizing effort by the Czech side to prove the existence of a single Czechoslovak nation.

The theoretical lesson that remains from this struggle for a "state Czechoslovak language" is that questions of language law cannot be resolved in isolation within individual disciplines such as linguistics, literary history or historiography. They are conditioned in a complex way by historical, cultural, economic, political, sociopsychological, and other circumstances. Isolated linguistic or literary arguments can have only a complementary effect, not a decisive one. The language law that established the state language in the form in which it was formulated by the statutes of the First Republic, although based on a number of objective and subjective reasons, proved to be unsuccessful, and it was corrected only by the Kosice Government Program of 1945.

It is a different matter if we look at the legislative guarantees to minorities of the right to use their own language. Czechoslovak legislation on language rights

was sometimes taken to task for applying this law only to individuals, that it did not recognize language minorities as legal entities. But such demand was entirely unrealistic, its fulfillment would have precluded at the very beginning a realistic possibility to build a national state of Czechs and Slovaks, and would have constituted at best a basis for creating a federative state of approximately the Swiss type (however, there all three main nationalities represented are also state-forming nations in other, neighboring states). Instead, the subjective public right of an individual to his language was ensured systematically and in great detail by the legislature, and that in turn also had a substantial influence on the right of minorities as entities to their own language. The effort to guarantee the right of minorities to their own language in the minutest detail led to a situation where the language law during the First Republic was one of the most complicated and also most difficult branches of public law. Being a member of a language minority was determined according to the mother tongue which was not legally defined. From the statistician's point of view, it was the language which "has been most commonly used by a person since childhood, in which the person thinks, and which is the expression of his or her nationality." Also, the CSR language law was based on the territorial principle, not a personal one (according to which, national registers would be set up where people would register according to their own decision: Estonia tried to put such a principle into practice before the war).

The provisions of the language law pertained to the activities of government offices and state courts, representative bodies and local governments, public special interest associations, schools, religious worship, and also to the language proficiency of government officials, public announcements and notices, inscriptions on legal tender, etc. An ethnic group using the same language was considered to be a language minority if it was represented by at least 20 percent of the population in at least one jurisdictional district (for that reason, Romanians and Jews were not a minority, even though they were recognized as a nationality). The extent and exercise of the language rights were set at three levels according to the numerical representation of the minority in the community, okres, etc. (using this method, according to whether a minority was represented by at least 20 percent, or whether it had a plurality, or whether it constituted more than two-thirds of the population; in the second and third case, these were said to be qualified and specially qualified minorities).

In practical application and functioning of the provisions of the language law there were occasional problems; these were mostly resolved by administrative offices up to the highest administrative tribunal. The system of the provisions of the language law themselves was not entirely without fault; but if we compare the Czechoslovak language law and its implementation with the conditions in other European countries, we can state quite objectively that only the status of the Swedish minority in Finland was better than the status of the

Czechoslovak minorities, particularly the German minority. The situation of the Germans in Czechoslovakia was even better than the situation of the Flemish minority in Belgium, in the scope of the rights it exceeded the status of all Czech and Slovak minorities in other countries, and was totally beyond comparison to the status of the Danish, Polish, Lusatian-Serbian, and other minorities in Germany, even in the twenties.

After the Second World War, the situation changed radically. First of all, the Czech-Slovak question was resolved in an entirely new way, the numerical representation of minorities changed fundamentally as well (particularly by the transfer of the Germans). Basically, the legal questions concerning language are regulated to this day by the 1968 Law on Czechoslovak Federation which establishes an absolute equality of Czech and Slovak, and by the 1968 Constitutional Law on the status of nationalities in the CSSR. Recognized constitutionally are the Hungarian, German, Polish, and Ukrainian (Ruthenian) national minorities, and each citizen decides his nationality freely according to his or her conviction; but because nationality is determined by parents when a child is born, it can be assumed that implicit in this provision is the right to change their decision (as examples in practice show). The law guarantees to the minorities the right to be educated in their own language, the right to use their language in dealing with officials in areas populated by the appropriate nationality, the right to have a press in their own language, etc. Otherwise legislative measures concerning language are relatively few and far between (for example, a civil court regulation imposes the duty to enable a citizen to use his or her mother tongue in proceedings before the court, similar provisions were contained in the law on the organization of courts from 1964 and the penal code in its 1970 version—but totally lacking were language regulations in the administrative rules from 1967; one draft of the procedural regulations of the Czech National Council contained the provision that Deputies have the right to speak in their native tongue, and that if they do not speak in Czech or Slovak, their speech will be translated into Czech.)

A new impulse in the area of the language law in Czechoslovakia was given by the dispute over the adoption of a law on Slovak language and the adoption of the so-called coalition proposal in the Slovak National Council. Most Czechs were surprised by this affair, they even felt outmanoeuvred. In the Czech Republic, it seems, people somewhat forgot that this affair had a precedent in Slovakia. In April 1968 during a pilgrimage of Bratislava linguists to Devin, an idea was conceived to pass a special law on Slovak language, and in May 1968 it was duly publicized by J. Ruzicka, director of the L. Stura Institute of Linguistics. It concerned only the rights of the majority "state" language, the minorities were not mentioned in it at all. Slovak was characterized as the national language of the Slovaks and declared to be, together with Czech, the state language in the entire territory of Czechoslovakia. Moreover, it proclaimed a

mandatory use of Slovak as the basic official language in the entire territory of Slovakia.

The draft was of a proclamatory and appellative nature since it declared that all Slovaks should support the development of the Slovak language, and it also had a linguistically cultural aspect—it prescribed the use of literary Slovak for all areas of public life.

One look makes it clear that this initial step in Slovak language legislation was not a fortunate one; it was not distinguished by clarity (what is a basic official language? and what does it implicitly say about some perhaps existing non-basic official languages?), it was more like a manifesto and, most of all, was unrealistic.

The subsequent fate of the draft was symptomatic of the times. Normalization swept the whole thing off the table. Although a shortened version of the draft was still discussed in the Slovak Academy of Sciences in February 1969, it never reached the Slovak National Council.

And now, 22 years later, it turns out that this matter has been smoldering and at the first opportunity, that is, now, it burst into flames. Yes, we can welcome the fact that the so-called coalition proposal won in the Slovak National Council, but only as the lesser of two evils. The future will show whether in Slovakia this did not let out a genie of other language and national complications out of the bottle. There is latent danger also in the repetitive, archaic character of the adopted law. Slovakia actually duplicates the development of the Czech language law of the 16th and 17th centuries, which was part of a process that led to the disasters following the Battle of the White Mountain. Historical parallels of this kind should serve as a warning. Slovakia, with its efforts in the language law area is moving away from Europe, and unfortunately is probably only giving more impetus to the nationalistic activities of its minorities. It is difficult to understand, for example, why names of communities or streets in linguistically mixed areas of the Slovak Republic could not be bilingual, etc. The Slovak language law is full of vagueness and enigmas. First of all, it should be necessary to define the concept "official language"—a concept that can, as we saw from the brief outline of the Czech language law, be very treacherous. The danger lies also in the postulate to use not only in state offices but also in local governments the official language in both the written and the spoken discourse. What will happen, if in a village somewhere in southern Slovakia, a village that is totally Hungarian, two members of the local government discuss public affairs in a language that is not official? Are they going to be punished in some way? Or, according to the draft law (paragraph 6) a member of a minority may conduct business with officials in his own language if the minority has at least a 20 percent representation in the community. That is the only modern, European point in the law. But according to the same paragraph, an official of the state or local government is not duty bound to

speak that minority language. Who will then make sure that the citizen and the institution understand each other? Etc., etc.

Pity, it is extremely obvious that the Slovak language law, even the better, coalition one is a product of an archaic nationalistic irrationality, consonant with the assertion which we recently heard in Slovakia: That nationality stands above all else, including the economy, European integration, etc. Such thinking leads to increased animosity among nationalities, and in the end it does not increase the prestige of the language it is supposed to benefit.

For the situation in the Czech Republic this means one thing. Can we do without a Czech language law? Should we feel the need for something like that, we should first look to our experiences. The history of the Czech, or Czechoslovak, language law is our historical plus. If there is to be a language law in the Czech Republic, it should be patterned on the language law of the First Republic, and it should be modern—i.e., its theme should be the language rights of the minorities.

(Alexander Stich (1934) graduated from the Philosophy Department of Charles University in Czech-Russian studies. He taught in secondary schools; from 1958 he was active in research at the Czech Language Institute of the Czechoslovak Academy of Sciences. He was forced to work temporarily as a publisher's proofreader. Since March 1990 he has been lecturing in Czech studies in the Philosophy Department of Charles University. His subject is the study of the evolution of literary Czech, the Czech style in literature, linguistic-literary subjects, and editorial work.)

#### Locality Devastated by Soviet Troops Described

91CH0223A Prague OBZORY in Czech No 21, 1990  
p 5

[Article by Dr. Helena Vaculova: "The Tracks of Fraternal Love"]

[Text] "During my 18 years with Geotest I experienced a few things, but what I have seen here made my hair stand on end," announced Eng. Milan Kucera, hydrogeologist and now our guide as we approached the tank firing range. We had scarcely gotten out of the car when he began gesturing with his arm. "In March there were tanks on transporters here, one after another. This kind of motor pool requires quite a ration of fuel. But the way they stored it was something else. No double-walled cannisters or concrete vats as our regulations require. The Soviets just made a hole, put the tank into it and that was that. A liter here, two cubic meters there, they didn't care."

We went over to one of the 11 holes that Brno Geotest, government enterprise, had already drilled on the site. The hydrogeologist opened the cover and lowered a collection cylinder. When he brought it back to the surface even we, who don't know anything about groundwater,

could tell that something was wrong. There was a two centimeter thick layer of a black substance on the surface. We were seeing with our own eyes the confirmation of previous fears, that petroleum substances at several locations had penetrated the subsoil, and were spreading in the ground water.

"What about this," I ask. "We have to map it all precisely, locate every single speck. We will be drilling holes until we find completely clean water. We have no idea if we will finish in ten or in a few hundred meters. Then we will start the cleanup. We will pump out the water and clean the subsoil. We know how to do this, but it will be expensive and take some time." I remind the hydrogeologist that the Soviets have let it be known that the Czechoslovak hydrogeologists are exaggerating, that the contamination is not all that serious. "I know, the newspapers carried the stories. But I spoke with an expert that the Soviets sent here. He admitted that our demands are justified, that because of our geographic position and the state of our ground water we have to watch every liter. We do not have the same leeway they do, because no rivers flow through our groundwater areas."

We stayed for about half an hour. Wherever we looked we saw nothing positive: holes, cables, and pieces of iron, abandoned houses, pulverized hillsides.

"The Libava military zone covers about 33,000 hectares," Eng. Kucera continued in the car. "We are conducting research at all 16 locations where the Soviets were concentrated. In three of these the situation was so bad that we had to begin cleanup immediately. When we started to take off roofs and dig up tanks, you see, the danger arose of a potential accident in unprotected terrain during a cloudburst." We then arrived at just such a sore point.

Not far from here, in the romantic valley of the Bystrice river, there is a cottage settlement. Here on the hill it is unhospitably empty and the wind is blowing like on a windy knoll. The wind here does not play with the crowns of trees or caress the grass, instead it angrily shakes and rattles sheet metal monsters. They were originally used to repair harvesting equipment but are now empty. The place, however, was not as deserted as it had first seemed. The figure of a man appeared and came towards us. "Eng. Libor Kaisler. Now he has papers in his hands, but usually he walks around here with a fork. He has a sense of where underground springs are located," our guide introduces us to our colleague.

In the buildings he shows us one oily spot after another. "It is all oil. They literally poured it out at their feet, or when we're lucky, at least against the wall. We have to take down the buildings, remove the panels, and then start the cleanup. Very close by is a dump. It is clear that they dumped literally everything there. When we arrived there was beautiful slate here, and we understood that the dump had been eliminated. We had barely begun to

## POLITICAL

JPRS-EER-91-016  
5 February 1991

dig it up when we learned just how it had been eliminated. I tell, you, it was a real tuzex. We found everything: utensils, dolls, brooms, and cartridge after cartridge, 21 live rounds in all." We go further, walking around puddles with iridescent rainbows on their surfaces, and cables rising up out of the earth. They got mad, and said they had perfect cabling and didn't want to tear it out. But why would we want to commit suicide? There was no cover layer, no bricks, no foil. They had just dug a hole, laid the cable and filled it in.

We saw many more troubling examples of "Soviet work." There were three windows in a room but none of them could be opened; the builders had just put the glass in a frame. Elsewhere the builders had been very discreet. Tolerances of 20 centimeters were nothing to them. When they were a brick short they just patched up the hole with a rock or a piece of wood. "The proverbial lazybones would be ashamed of this slipshod effort," I said to myself. And to make matters worse before they left the Soviets destroyed every bit of this slipshod workmanship. Not even the light switches were in one piece.

At another location, the town of Libava, we encountered another Geotest team hard at work. By a stream where petroleum products threatened to penetrate into the surface water a bulldozer was eagerly digging into the earth. A little farther on, workers were removing from the core of a drilling unit surface earth, clay subsoil, water bearing gravel, bedrock. The holes here are six to seven meters deep, and it takes two or three days to drill one. In a moment the machines stopped. It was 1230, and time for lunch. We had one more stop to make so we set off for Stare Vody.

"You keep asking us when we are going to clean the earth. Well here we are," said Eng. Kucera, as we stopped at the former "apel placu" [not further identified]. There was asphalt as far as the eye could see, which was now half covered with a layer of earth. "Earlier we rinsed the subsoil, but now we have something special for it. Biodegradation. We put a 40 centimeter layer of earth here then spray it with a solution that contains specially developed cultures imported from Alaska. The microorganisms destroy the petroleum substances in two months. They need an optimal temperature, however, so we will feed them even in the summer. We started trial operations in Frenstat, and the results so far have been promising."

We wanted to see Stare Vody for another reason, however. Formerly there had been a painted church here, to which thousands of pilgrims had come each year. Three hundred years ago the pietists had spread culture and enlightenment from the church. I knew that the church had survived, but I had no idea of how. Not even when I was a couple of meters away from it. All around there were flowers and the air was full of secrets. I hoped that human feet had not encroached here. Scarcely had I entered the sacristy when I lost any illusions. Ruins. Walls with the names of vandals and the names of the

places where they had come from. Fragments of the beautiful frescoes which had been shot at.

It was late afternoon. We had travelled 90 kilometers inside the military zone and were nearing its boundary. We passed bare hillsides that once had been fertile pastures. We left an area where nature itself is struggling. For survival. It has an immense will to live and the men of Geotest assured me that they will help her as much as they can.

Libava was behind us and I suddenly became aware that we will not only be demolishing sheet metal shacks, rooting out tree stumps, and cleaning the water and the soil. We also have to demolish the foundations of unhealthy human relationships. These foundations were laid by those who invited these unwanted guests and forced the rest of us to call them brothers. These people offended both them and us. But we would be just as stupid not to lay new foundations of healthy, neighborly relationships.

## HUNGARY

## New Investment Corporation To Assist Government

91CH0229A Budapest MAGYARORSZAG  
in Hungarian No 48, 30 Nov p 21

[Article by Erzsebet Juhasz: "Capital Investments—All Talk, No Action"]

[Text] "All talk, no action," as the saying goes, will never get things done. Not even, we might add, if that talk is persistent and loud. By extension, this also applies to the search for a solution to our enormous and fundamental national problems. It is easy to see, for example, that we cannot improve the long ignored lot of provincial Hungary with eloquent but empty slogans, and clever but incessantly repeated, lofty rhetoric. Regardless of where and how loudly we may choose to "orate"—whether in parliamentary clashes at the highest levels of authority, in domestic or international negotiations, or elsewhere—we cannot move forward without taking specific and practical steps. Besides, everyone is already fed up with the empty pronouncements and endless debates that have come to surround this issue.

## Profit Oriented

One of the biggest challenges facing local governments is how to establish an economic basis, i.e., where and how to find the resources needed to ensure the existence and development of the settlements within their jurisdiction for which they are responsible. The problem is particularly serious when they have nothing, or hardly anything at their disposal to "mobilize" in order to meet that challenge. Their situation is not enviable even if they do have something to make a little money on or do profitable business with, because—and this is not their fault—the entire country is still in the process of learning (the

hard way) about the principles of market economics, and because in most cases they lack the necessary expertise and basis of information.

This is what the Regio-Invest Regional Consulting and Investment Corporation has set out to change, and not just in theoretical, but in practical terms. The firm was established in August, by 24 county, city, and village governments, research and planning institutions, and private persons. As a profit-oriented organization committed to the rules of the market place, the company believes that its main task is to stimulate evenly paced regional development in the country, and particularly in the countryside. To this end it intends, by helping domestic and foreign investment plans to become reality, to give a significant boost to developments aimed at attracting foreign tourism; to promote custom-free zones and other forms of association; to improve the utilization of airports and their adjacent areas; and to assist in the creation of new and modern places of work. It views the local governments as its primary partners.

The company's main line of business is investment counseling, which is preceded by thorough studies. They examine the development needs and possibilities of the area, and look into what is lacking, particularly in terms of necessary capital and information. Once this has been established, with the help of a modern, computerized information system and a network of agents, they compile investment information materials. This alone, however, would not be giving people their "money's worth," so they also seek out potential domestic and foreign investors. The experiences that have been gathered during the few months since the firm was established lead one to conclude that the solutions with the best prospect of success are those which, focusing on one task at a time, view partnerships and joint ventures as their basis of development. This is all the more important since it means creating businesses that provide new jobs, which in several areas is of vital importance today.

Their consultation line service is nicely complemented by their conference organization business. Let us not be too rash in dismissing this as yet another way of generating empty rhetoric, for that is not the firm's intention. What it has in mind instead are special gatherings, organized for the purpose of "matchmaking." It hopes to establish itself as the organizer of profit-making events that are closely connected with the regional and areal development concepts it manages, and to provide a venue and opportunities for local entrepreneurs, producers, and businessmen, as well as investors and financial institutions to meet and talk. Moreover, their hope is to have conferences where within a matter of a few days, specific business ventures can already begin to take form, and where perhaps even "marriages," and business deals can be arranged.

#### By Means of the Market

Since they too are naturally making their living in the market place, they are also thinking about organizing

ventures of their own, and there are already businesses in the making in which they will be playing a direct role. It was partly for this purpose that they have created their enterprise branch, as well as to give their own businesses and the regional developments and projects they manage a solid foundation. They are involved in marketing, market research, and the arrangement of commercial transactions.

From all of this, one might conclude that Regio-Invest has joined the mushrooming ranks of businesses with similar profiles, intending to provide the "same services, in the same manner" as the others. Does it possess any characteristics that would distinguish it from all the others? For example, how can one tell that it specializes in provincial matters? Responding to these questions, President and General Manager Lajos Veres has told us that his firm would like to differ from similar businesses in many respects, especially since it has chosen to commit itself to the development of the countryside. Therefore, they do not intend to limit their assistance to technological and commercial innovations, nor to "operate" solely within the realm of products or technologies. They aim, instead, to tailor their efforts to the various regions, areas, and subregions of the country. They will try to approach and take into account all business opportunities in a complex manner, ensuring that the effects of different developments within a single area reinforce one another.

The president and general manager also expressed his firm belief that intentions to invest can be managed by means of the market in a way that will promote harmonious regional development. This belief has been further reinforced by the conclusions of a team of experts sent to our country by the United Nations Industrial Development Organization [UNIDO], a specialized organization of the United Nations. Their recommendation to foreign syndicates was also to take the regional "packages" approach to investing in Hungary.

#### Intensity

And just what kind of ties would they like to form with the local governments? Given the present tendencies in our economic policy it is clear that in the future, local governments will play a key role in shaping the living and working conditions of the populace, and thus, the development of the country. Their increased responsibilities and jurisdiction will broaden the range of possibilities before them. As proprietors, entrepreneurs, and producers they will become important players in the market place, and as such, in the long run, they will be able to create a demand for the kinds of activities that are defined in Regio-Invest's profile. Hence, the company plans to go to the local governments and mayors—as it has already begun to do—with specific business proposals. They make no secret of the fact that these were the needs they had counted on meeting when they organized the firm. They have already received several inquiries, which should not come as a surprise. The firm makes an effort to offer business proposals, complete

with specific organizational recommendations that can help to assert local interests and ensure direct involvement by the local leaders.

The target of their first project has been the Tokaj-Zemplen region. They have been in close contact with the local governments of Tokaj and Sarospatak, and have found active partners among the members of the Sarospatak Intellectuals' Circle. They are already active in the counties of Csongrad, Bekes, Somogy, and Zala. To make their work easier, they plan to open regional offices. The South-Transdanubian regional office is already in operation. They also see excellent development opportunities in the Nyiregyhaza, Debrecen, and Pecs regions. Here, too, they are in the process of forming ties (not as an advertisement, but rather in the form of a little assistance to a young firm, which is still difficult to find). Regio-Invest's central office is located at 22/B Labanc Street, 2nd District, Budapest.

Experience so far has shown that in general, local governments see the utilization of castles, mansions, curative and hot spring waters for the purpose of attracting foreign tourism as having the most potential, and they also support the reopening of airports located in their areas. The fact, however, is that keeping all of these facilities in operating order requires large amounts of capital, and in some cases, there have been doubts as to the profitability and feasibility of certain projects. In addition to the above developments, this firm also tries to explore other potentials present in the area waiting to be utilized. Thus, for example, when they are asked to participate in the development of the Szeged or Bekescsaba airports, with a view to ensure that both the adjacent and broader surrounding areas benefit, they look at that airport not only as a runway where planes take off and land, but also as a facility with surroundings to be utilized for business purposes.

In connection with the airports, we have also been told that while foreign entrepreneurial interest in them is a well known fact, it would be inconceivable to allow them to operate in a given area as a foreign entity. So it would be important for the local governments to assume a strong proprietary role in the case of airports. A related issue, of great public interest, is the bid announced recently for the utilization of former Soviet airfields. As the "tender issue owner," Regio-Invest has its own position on the basic issues involved in this matter.

#### **Capital Rich Partner**

Regio-Invest officials see no justifiable reason for the state insisting on retaining ownership over all airports, as it is incapable of operating them in a manner that would also benefit the surrounding areas. This is also clear from the wording of the bid announcement; there the state clearly absolves itself of any responsibility with respect to the development and operation of airports. This is a rather strange position for a proprietor to take, the people at Regio-Invest believe, because what it means is that it has chosen to sidestep the need to find solutions to

the problems by acquiescing the danger of allowing the interests of foreign, capital rich partners to gain precedence over others.

And what is their solution? They believe that foreign participation in the utilization of airports is necessary. However, they also feel that it would be better if some facilities were placed under local proprietary control. This would allow local governments, using their position as proprietors, to deal directly with foreign entrepreneurs. What is a small settlement going to do with a big airport? Should this become a concern, they feel, consideration might be given to forming a settlement association made up of neighboring settlements for the purpose of addressing that issue. The company could play an active role in this. With their help, this has already been done in the case of the Sarmellek airport, where a settlement association has already been formed. This, and the issue of local management, will be the topics of conferences to be held in December.

#### **Serious Disruption in Newspaper Sales Scored**

*91P20106A Budapest NEPSZABADSAG in Hungarian  
12 Jan 91 p 5*

[Article by F.Gy. and Miklos Breitner]

#### **Unsuccessful Debut**

[Text] At the HELIR, which is not as well known under the name Newspaper Subscription and Delivery Office, the telephone is ringing virtually nonstop with complaints. Many papers are arriving to subscribers late or not at all.

The cause of this is that the post office has changed its pace and has modernized the distribution of newspapers. The change in pace has, for the present, disrupted the process. Since 1 January, two postal organizations have been carrying out a task that was previously done by one. The Newspaper Trade Directorate is now responsible for vending, while the Newspaper and Postal Delivery Directorate is responsible for subscriptions.

"From now on, post offices will not order the subscriptions directly from us, but through an intermediary county or capital post office organ," we were informed by Mrs. Ferenc Kovesdi, the head of the Newspaper and Postal Delivery Directorate. "At these offices, they put all of the data pertaining to subscribers and to the 1300 papers ordered at 3000 post offices on computer diskettes. They then sent these diskettes to us and we entered the data into the large computers."

"This is natural; this is how they usually proceeded with the centralized collection of data. What went wrong?"

"Everyday, we sent out the publications on the basis of the data collected, but it soon became evident that the data was unreliable. Sometimes the post offices got too few copies, sometimes too many, especially at the smaller offices in Gyor-Sopron, Hajdu-Bihar, and

Szabolcs [counties]. We did not, and could not check to see if the data on the diskettes corresponded to reality. This would have been the job of the operators who processed the data."

"How long will it take to correct the mistakes?"

"The managing director has set 15 January as the deadline. At this point, we are only having problems with the picture weeklies. We have managed to put the daily subscriptions in order. I can promise that everyone will get the missing issues."

[Box, p 5]

#### Our Apologies, Reader!

The newspaper vending system on the street has become shaky. The part of the post office that deals with selling newspapers has become an independent enterprise. As a result of the reorganization, daily papers have virtually become unavailable. By 0900 hours the papers have run out at the most important centers in the capital, and telex and telefax messages one after the other inform us about cities that have not received any papers at all. Newspaper publishers were afraid of the reorganization because the distribution system has been bad for years, but it has never been this bad before.

We can only do one thing. We apologize to the reader. We cannot say any encouraging words. We are simply unable to influence the enormous machine that we call the Hungarian Post Office.

The newly formed Newspaper Trade Enterprise, which is overseen by the Hungarian Post Office, has misunderstood its role. It thinks that it is a censor and has to save

the reader from bad news, such as price and interest increases, the devaluation of the forint, the Gulf crisis, or even from the good news arriving from Australia about [our] swimmers. The newspapers tried to "corrupt" the Post Office, since after all it costs 50-70 percent more today than last year to get the paper from the printer to the street.

Presumably we would overestimate everyone's intellectual capacity if we thought of some political plot. For example, if we suggested that the government is trying, through its own enterprise, to retaliate against the mass media's constant criticism. We don't even assume that the postal workers, given the task of reorganizing the trade on the street, know about the barely concealed joy of the prime minister when he heard that the newspapers are getting into an impossible financial situation as a result of the growing paper prices, printer bills, and distribution cost. One could practically hear: At the most, a few hundred journalists will end up on the street....

In other words, we do not have to assume such things about those who run the post office. They simply confirmed their customary lack of ability with the reorganization, and contributed to the further deterioration of our sense of well-being during this sad winter.

We ask, dear reader, that if at the news vendors' they do not push anything under your nose other than a little sign saying "dailies unavailable," do not desert us. We advise you (although this is certainly not the place for an advertisement) that you may be able to defend yourself against the post office's ill-spirited attack by putting in a subscription.

**BULGARIA****SDS Deputy Explains 'Equal Start' Program**  
*91BA0207A Sofia DUMA in Bulgarian 29 Dec 90 p 5*

[Interview with Nikolay Bliznakov, deputy of the 103d Plovdiv Voter District, by Mitko Bozhkov; place and date not given: "The 'Equal Start' Program: What Is It?"]

[Text] [Bliznakov] The "Equal Start" program was introduced in the Grand National Assembly by 25 deputies from SDS [Union of Democratic Forces] and BSP [Bulgarian Socialist Party]. This is not an independent parliamentary group, but rather an informal grouping of people united by similar values and opinions on how to implement economic reform. We hope that our supporters will increase in number.

[Bozhkov] What are the most distinctive features of your program?

[Bliznakov] They are monetary reform with currency exchange, temporary blocking of a fundamental part of the deposits, and compensation of especially large deposits.

[Bozhkov] You are betting on the "Equal Chance Privatization" launched by you. Would you tell us about it briefly?

[Bliznakov] According to it, every Bulgarian will receive his share of the common national assets for free. The fundamental idea is not their sale but their return to the people, to every citizen.

[Bozhkov] How can this be accomplished?

[Bliznakov] Everyone will receive free "investment checks" of about 7,000 to 8,000 leva each. This is the corresponding ideal portion of the areas to be privatized that belongs to each adult Bulgarian. These checks will be used to participate in auctions to purchase shares in destatified enterprises, stores, and restaurants. Those who work in the enterprises of which shares are sold, former owners, and perhaps also some highly skilled specialists will have certain priorities. Ample possibilities to use no-interest credit will be very important. The possibility of limiting participation with [real] money should not be underestimated.

[Bozhkov] Why?

[Bliznakov] Perhaps I should begin with the legal basis. You cannot sell to the people what is already theirs. It should be returned. Such an approach is much clearer regarding land. We feel that "public" property is nothing more than the result of superexploitation, of forced collection of "dues" from everyone for industrialization in the form of underpaying for labor.

[Bozhkov] Aren't you getting carried away with your descriptions?

[Bliznakov] We have earned this money, and now we are getting part of it back. Now this will be a revolution....

[Bozhkov] Privatization equals revolution. Do I understand you correctly?

[Bliznakov] The revolution would not allow "money laundering" through privatization. We have no right to burden people with speculators and Mafiosos. It [the revolution] is against them in principle.

[Bozhkov] But, in any case, what you are saying is more fantasy than reality. All in all, what are your ambitions?

[Bliznakov] "Equal Chance Privatization" will create an enormous middle class of owners instead of dividing us into a small group of nouveau riche and a large group of poor people. This middle class will inevitably overtake the economy; its knowledge of economics and interest in the end result will increase. This will bring us closer to the West European type of market economy than to the Asian model of capitalism, with its typical striking social differences.

[Bozhkov] Have you thought out everything?

[Bliznakov] It is quite obvious that there simply isn't enough free money to buy out the assets we plan to privatize, which equals some 60 billion leva, as an example. The citizens probably have about 25-27 billion, and, of that, only about 7-9 billion leva belonging to the wealthiest 3-4 percent of the population could be invested.

[Bozhkov] Let us go back to monetary reform. Why are you endorsing it so passionately?

[Bliznakov] It is truly imperative. Everything reflects that. The great imbalance between goods in the market and the enormous quantities of paper leva has created great stress in the consumer market. This stress can be eliminated in two ways. One is by increasing prices and thus freeing inflation. This is a way I feel is unacceptable to our society and will hardly become acceptable regardless of which government endorses it. Besides, we are not talking about ordinary inflation. The accumulated inflationary pressure is such that inflation could reach from 900 to 1,600 percent. Attempts to soften it are inevitably linked to a very serious drop in production, and this we cannot afford because it is the limit at which peace in society is endangered. And we are very, very close to it.

[Bozhkov] What can we depend on?

[Bliznakov] It is no secret that, as a model, we are using Erhard's monetary and economic reform in West Germany during 1948, which, as if by magic, led the country away from destruction and gave start to the "German miracle." There are other reasons in addition to this. Among them is the explosive increase, especially lately, of so-called dirty money. Nowadays, it is getting harder and harder for the lev to play the role of money at all. If you want to buy say gasoline or cheese, you need, first of all, rationing coupons; second, time and nerves of steel;

third, luck to find the merchandise; and, finally—almost as an afterthought—some leva. It's the same with the firms. They also cannot use their money and are more and more often paying with dollars or trading "merchandise for merchandise," which is similar to bartering.

[Bozhkov] If we use your logic, after monetary reform we will have gasoline and cheese and time and luck. Will we have leva, too?

[Bliznakov] I am convinced that both the enterprise managers and the people will understand that surgery using monetary reform will be much more effective and less painful. Hopelessly contaminated blood in the form of today's leva flows in the diseased organism of our economy, and we cannot expect a cure without draining it and replacing it with new blood. The limited issuing of "new leva" in the beginning will help stabilize the commodity market so that speculation and mistrust of our own currency can be curbed. Inflation will begin to be controlled. Incentives for work and economic initiative will increase sharply, and not just because there will be hectic demand for "new leva." Of course, there are quite a few details related to this reform, but it is impossible to discuss them now.

[Bozhkov] What do the greatest optimists among you expect?

[Bliznakov] They feel that a parliamentary and even a national consensus can be reached on the basis of the "Equal Start" program. It reflects the predominating egalitarian (equalizing) mood in our country and will unite the "blue" [SDS] and the "red" [BSP] deputies who support social justice and national solidarity.

## CZECHOSLOVAKIA

### Volkswagen's Chairman on Agreement With Skoda

91CH0244A Prague FORUM in Czech No 48, 1990  
p 14

[Interview with Carl H. Hahn, chairman of the board of Volkswagen, by Jan Vavra; place and date not given: "We Understand Our Partnership With the Skoda Works To Be an Obligation"—first paragraph is FORUM introduction]

[Text] The chairman of the board of the winning company, Carl H. Hahn, received me in the lounge of the Hotel Diplomat. The winter sun shone through a large window onto the table full of snacks and drinks, and Dr. Hahn absentmindedly toyed with a pocket knife with the VW emblem throughout the interview.

[Vavra] What will be the direction of the first steps that you will take in the case of integrating the Skoda Works into your structure?

[Hahn] We have already had very detailed discussions with the Skoda Works. The gentlemen from Skoda, who

are very skilled experts in the automotive industry, need relatively little from us in terms of professional or personnel assistance, but rather need access to our new computer systems, the CAD systems, access to the world markets, and access to the modern production methods and systems ensuring quality control which are used by us. The first phase of the so-called instant program is the introduction of the Skoda Works everywhere in the world that we have something good going on. There are two main points and two steps prepared. We see them as qualitative improvements in the vehicle in order to reduce its fuel consumption, improving the quality of the ride, and making the vehicle still more attractive in appearance for the Western markets. I emphasize that today's Skoda Favorit is better than Seat's Paleta when we took it over. The Favorite is a vehicle capable of further development. In parallel with the qualitative improvement, which is an unending process, we will also have to make changes in the production processes. This is primarily motivation of the personnel, training the personnel, and cooperative working with the personnel in the way that we do. It is possible to improve the quality of the production process and to reduce the costs of the production process or, in other words, to increase the productivity of labor. There are parts of the Skoda automobile factory in Mlada Boleslav which are in the best of shape that I can imagine, but we also know that there are parts of it which it is urgently necessary to modernize. I do not wish to name them individually, but they are covered in our capital investment program.

We have two directions to pursue; one is partial renovation and modernization of the plant and the other is to increase the capacity so that it is possible to achieve a larger number of units. We think it should primarily be aimed at exports to Western Europe. We believe that Skoda's good reputation as a high-quality product should soon produce hard currency from that market for Czechoslovakia.

The third large project which we have prepared and which we want to develop here is typical for our joint system. Throughout the world we have highly specialized plants for individual assemblies of parts which are connected to each other. For example, every day our system gets 1,500 engines from Mexico which go to China or to Europe. Other examples are axles from Mexico, aluminum wheels from Canada, heads from Canada. This month a ship will leave with the first delivery of engines from Shanghai for Europe. And we plan to set up more capacity in Mlada Boleslav than Skoda needs. By exporting engines the Skoda Works can acquire engines from our broad assortment so that it can equip its own vehicles in each case according to the needs and desires of its customers, whether it is a matter of fuel savings, where we can use a 1.05 liter engine, or if it requires a 1.8 liter Diesel, or a 1.6 liter gas consumption, etc.

In other words, our company has specialization and through connections at the same time has a diversity which it can offer to our customers. From the first day

we plan in parallel to bring our experience to the suppliers and, where it is necessary, help our suppliers. This will concern the suppliers achieving the desired quality so that they will have a chance to reduce expenses and to increase the quality of the supplies for the Skoda Works so that they can become exporters. After all, it is only 100 kilometers from Mlada Boleslav to Zwickau. Why then could components not be supplied from Mlada Boleslav to Zwickau and vice versa? This optimization concept, which we practice everywhere and throughout the world in our plants clear to Shanghai, we want introduce in your country as well very rapidly and early. We have other ideas. Every automobile has a certain useful life. This useful life as a consequence of technological progress is constantly getting shorter. We have thought things over with the gentlemen from the Skoda Works as to what new plans we must carry out at the Skoda Works in order for us to keep pace with the top technology in the world. We considered the other capacity necessary in order to take advantage of the chances for our improved products. Along with this it is necessary also to build up a marketing network in Western Europe. These are matters which need to be done immediately, but we have a number of advantages such as geographical proximity, the experts that are here, and the knowledge of the German language in this country. All the important elements are in our favor.

[Vavra] How do we improve the Skoda Favorit produced today using your approach? How do you estimate the development of its price?

[Hahn] Our intention is to care permanently about the model as we do with our models through the so-called continuous improvement which is the secret of the long-lasting models. For example, the Golf has already reached eight years of age and today is better than it was at the beginning. Why? It is a consequence of constant care about the model. This policy is the policy of continuously improving details. We also find this policy with the Skoda Favorit. We have been performing tests with this vehicle and studying it here for two years now. We know how to improve its aerodynamic shape, etc.

I cannot say anything yet about the pricing policy because it is closely connected with the introduction of the market economy and with the reduction of expenses in the supply industry in general. If we want to remain capable of competition in the world, we must be more productive. A lot depends on how rapidly it is possible to increase labor productivity. The Skoda Works are, as far as expenses are concerned, very dependent on the suppliers and this determines the overall cost of the Skoda cars as well. In addition to this, the government is understandably planning various changes in the taxes, tax reforms, etc. These are all elements which determine the establishment of prices. And it is now therefore also too early for us to say anything to you about the price policy.

[Vavra] Can you tell us when the Favorit Standard will be equipped with catalytic converters?

[Hahn] Today I still cannot tell you that, but I can say that according to our experience it is a process which can take two years. But the question is not when it will have catalytic converters, but rather the core of the matter is when there will be unleaded gasoline at the gas pumps. And this is another large investment for the Czechoslovak national economy. In our programs we are totally oriented toward unleaded gasoline.

[Vavra] What do you see as the greatest problems in the practical incorporation of the Skoda works into your enterprise?

[Hahn] You know, we are not incorporating anyone. We want for the Skoda employees to continue to be proud of their Skoda Works and that they continue to be a proud Czechoslovak enterprise. This is not a matter of any Germanization or incorporation or any such thing. Our sister companies everywhere have a partnership with the headquarters and have national management. At the same time, we carry out a rotation of personnel so that people get used to a common way of thinking and create the prerequisites for them to be able to utilize all the advantages which a large concern offers. For example, if Audi is buying only 5 billion and Volkswagen as a whole is buying 30 billion and these are wisely combined, then they can obviously buy more advantageously. And these are matters which we will integrate. But despite this, the purchasing in Mlada Boleslav will be responsible and will have a transparent nature and computer connections to the headquarters. We will know for what price they are buying tires, spark plugs, a ton of sheet metal, a wheel, or a radiator in Germany and then they can make their purchases most advantageously according to that and advise the suppliers as well. In this sense, Skoda Works will become our fourth independent trademark. It is a strong trademark coordinated by a headquarters which has representation by all possible nationalities. If we should get the Skoda Works, it would result in 50 percent of the highest management department of Volkswagen being foreigners. We want to give this feeling to people so that they will be aware that they are living in a European enterprise and that they are not any kind of second-class citizens, but on the contrary they should be able to demonstrate how good the Czechoslovak automotive industry is. And what is better, they will be able to get to the resources of the world and at the same time can use channels for their marketing which lead throughout the world. These will be their own channels; a Skoda employee will sell a Skoda like the Seat manufacturer sells a Seat. When, for example, a Skoda car sails to Taiwan together with an Audi and a Volkswagen on a ship which belongs to Volkswagen AG, then it is transported more cheaply, conveniently, and rapidly. These are the joint resources. We have, for example, a fleet which comprises 11 ships, each of 30,000 tons, and this fleet does nothing except to ship automobiles throughout the world—from Brazil to the United States, from Mexico to the United States, etc. I want to say that we are decentralized and we coordinate; we have a strategy

of making everyone in the concern an active person. This is how our philosophy differs from that of other enterprises.

[Vavra] Where do you see the greatest practical problems in cooperating with the Skoda Works and what consequences do they have for the employees in their relationship to their work?

[Hahn] The question of modernization of the Skoda Works is a question of large investments which will be costly even for the design engineering. There will be changes made which will mean learning to work with new things. The employees will have to learn to work on new machines. No one likes changes. It is sure that it is connected with certain problems. At the same time, people will see that the working conditions are improving when the work output is being increased. In the past seven years at Seat we have increased the work output sevenfold. But the prerequisites for this were also that Seat became the most rapidly developing brand in Europe. And I therefore say that I do not see problems, but rather great tasks and hard work. To want to compete in the world economy where today there is a world market in every village and where the largest scale is applied everywhere means that great demands are also placed on every person who wants to be successful. But only those who participate have a chance to survive in this competition.

#### Economic Reform Program Risks Discussed

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in Czech 12 Dec 90 pp 10-11

[Article by Professor Vladimir Kadlec, doctor of science, October 1990: "Risks of the Government Economic Reform Scenario"]

[Text] The economic reform scenario developed by the government was debated and passed in mid-October by the CSFR Federal Assembly (we published a draft in HOSPODARSKE NOVINY on 4 September 1990). There are now only a few weeks until the "start" of this program, yet the discussions and arguments concerning its conceptions, its strong and risky aspects continue unabated between the general public and economic experts. Changing social and economic conditions are provoking a multitude of different views and positions, which are reflected by the author of today's article.

Everyone wants market relationships to be instituted to as wide an extent as possible so that price deregulation can lead as quickly as possible to price equilibrium and so that koruna convertibility can open our economy to the world. The Economic Reform Scenario which, under government auspices, adopts a radical and rapid course to these objectives, reflects these wishes.

The question remains open, however, of whether the public is well enough informed as to the sacrifices this will demand of them and as to the risks inherent in such a reform in terms of the social feasibility of certain

corrective reform measures. Nor should we underestimate the risk of possible social and thereby also economic destabilization of the national economy.

#### Are We on the Verge of Economic Ruin?

"Unfortunately, no one wants to hear about our starting position. The public has no idea that...we are on the verge of economic ruin." (Slovak Government Premier, 3 September 1990.)

The phrase "on the verge of ruin" is probably (for the time being?) exaggerated. However, the public does not even have a rough idea, for instance, of the magnitude of the internal debt which economic reform will have to deal with. Still hidden from the public are the figures that result from the years during which our society lived on credit, at the expense of the future. During the almost 20 years of Husak normalization, wages and salaries were paid that were not covered by an equivalent amount of goods. The resources for these wages and salaries, and for the social policy were obtained partially by printing inflationary currency, and in part by postponing the technological modernization of our obsolete and depreciated capital stock. In many cases even simple replacement was not accomplished and investments essential for structural changes to industrial production were postponed. The maintenance, improvement, and building of the infrastructure (communications, surface and water transportation, sewer systems, the electric power grid) were all neglected, as were maintenance to the housing stock, ecological investments, investments in public health, etc.

Without "paying back" a large portion of this immense domestic debt there is no hope of achieving equilibrium, increasing national income rapidly and effectively, expanding market relationships, importing adequate levels of technology and raw materials (while exporting effectively), preventing ecological catastrophe or a threatened decline in the standard of living. Without at least rough quantification and specification of the most urgent aspects of this debt we will be starting our economic reform blindly. We would be repeating the mistake made by the Soviet Union.

We can get an idea of the magnitude of this domestic debt, of how far we lag behind the Western countries in technology and ecology by examining the state of the GDR at the time of its merger with the FRG. It is estimated that over the next five years the FRG will provide an economic injection of something like one billion West German marks to the territory of East Germany each year. Our neglected, postponed, lacking investments represent hundreds of billions of debt, a mortgage on future national income. This debt will reduce potential increases in the standard of living if we are to prevent our technological backwardness from increasing. In this sense workers will be asked to make noticeable future sacrifices, regardless of whether they are referred to as belt tightening or a diet. The magnitude

of these sacrifices is being hidden from the public. In this sense V. Meciar was right to use the phrase "on the verge of ruin." *Hic Rhodus...*

#### If Things Do Not Get Worse...

"Everyone expects the government to make things better.... We will be successful if things do not get worse." (Slovak Government Premier, 3 September 1990.)

Things will get worse if the workers do not comprehend that we will not get out of today's ongoing catastrophic economic development without great sacrifices. Despite the fact that civil rights have been renewed in the political arena, as well as democratic elections, and limits placed on the management of society by directive, economic development during 1990 was negative, worse than during the final years of normalization. Without sacrifices in the cost of living, without making better use of the work day, without improving performance, resource management, etc., there is no way to reverse, or even stop the current macroeconomic trend towards economic decline, no way to even moderate the fundamental disproportions and deformations, no way to stop the further growth of internal debt, i.e., there is no way to stop living on credit.

"Development this year was characterized by a continuing trend towards increasing imbalance between demand and supply in all economic spheres.... Supplier-customer relations worsened.... The consumer goods market fell farther into imbalance.... The cost of living index rose.... Real wages declined in comparison with the first half of 1989.... The production declined of passenger cars and delivery vans, of motorcycles, refrigerators, freezers, color televisions, and footwear. In comparison with the first half of last year 27 percent fewer apartment units were completed. Construction work volume declined by 7.3 percent, and labor productivity fell by 3.1 percent. As in industry, the relationship between wages and labor productivity is unfavorable" (Statistical Overviews No. 8 and 9, pages 225 and 257). "The first half of 1990 ended with a deficit of 2.8 billion korunas [Kcs] in hard currencies and the difference between government receivables and payables again turned negative, after six years." (State Bank, RUDE PRAVO, 13 September 1990.)

There are a number of explanations as to why production sometimes declines, but one should not pass over this fact if at the same time wages and salaries are growing at an inflationary rate. The negative growth rate of 1990 was worse than in the last normalization year of 1989, worse even than the average for the years 1980-88, when national income grew at a rate of a little more than one percent annually. But Minister Dlouhy does not consider this growth rate to be catastrophic, because "the economy has not fallen apart but is still functioning" (RUDE PRAVO October 1990). This was probably also why the government passed a radical (severe) and rapid (comprehensive, one-time) economic reform, with the

"big bang" to be administered on 1 January 1991. There are fears, however, that things might get worse.

#### Will the Economy Survive the "Big Bang"?

"We cannot afford to lose any more time in discussions over the basic objective of reform." (K. Dyba, LIDOVE NOVINY, 25 September 1990.)

Some politicians have demanded that the (fruitless?) discussions on economic reform come to an end, that the reform be implemented in practice. It is true that there have been enough discussions (the one-sided kind?), but it is also true that discussions about some important aspects of the reform never even started. They could not start in areas about which there is insufficient information. If, for instance, as indicated by the Slovak Premier, our current economic situation is not well known, then this will be an obstacle to the correct choice of an effective and convincing variant of reform, and therefore also to its economic effectiveness.

There should also have been a discussion on the subject of the price deregulation that is scheduled for 1 January 1991. Will as many equilibrium prices be allowed to form as allowed by supply and demand, and the price level allowed to increase by 20 percent, 30 percent, or more? This "or" is especially important for determining whether things will be worse or even worse, and how much sacrifice will be needed from the public. Will domestic monopoly producers be allowed to take advantage of their position to the extent that they will be allowed to steal directly from consumers and their customers? Are these consumer-producers going to be allowed to pass through the increased prices of their inputs to the prices of their products, and thereby also into retail prices? Or will we opt to control price deregulation and go back to regulated prices, and if so, which ones will be regulated, for instance those of essential daily needs? Or will there be some kind of social compensation, and if so what kind? Or do we not permit firms to pass along their increased costs and expect increasing numbers of insolvencies and bankruptcies, even of potentially healthy enterprises? The declaration that "prices will not be unchained" was welcome, but the slogan price deregulation remains imprecise. All this demands information and discussions. It shows how poorly thought out the Economic Reform Scenario is, and how serious and socially explosive are the issues of prices and wages.

Another poorly thought out part of economic reform are the social consequences of the devaluation of our currency. From the scenario, one can guess that devaluation will result (including changes in trade with the CEMA) in an increase in domestic prices of several tens of percent. The scenario comments that to retard inflation a "strict wages policy" will be implemented. What is a strict wages policy? Here it would certainly be desirable to work out variations of a wages and social policy (with their impacts on the budget, currency and price policy) and facilitate a broad discussion of these issues among

economists and experts. This was absent from the scenario at the time when we were threatened by reduced deliveries of crude oil from the Soviet Union. It is even more important to project these variants in view of the war situation in the Persian Gulf, using different assumptions for the price of oil next year. Also pressing is a discussion of the relationship of this "strict" and possibly "stricter" wages policy resulting from devaluation to increased living costs.

The Economic Reform Scenario does not contain basic quantification. One must reject the views of bureaucratic economists who refuse to quantify, even approximately, their basic reform measures. This raises the suspicion that they want to hide from the public how bad things will get. They may be pursuing other objectives when they state simultaneously that economic reforms will not require any belt tightening, but only slimming down. Come on: It's either one or the other.

#### **The Transition Period: One Year? Three Years? Five Years?**

"We can look to the future with optimism that the economic, social, and political problems that certainly await us along the way are temporary." (M. Calfa, Government Program Decree 4 July 1990.)

How long will the transitional period actually be before the time of recrimination and sacrifice passes, or until tangible positive effects of the reform become evident in daily life? How long, for instance, will it be until we are able to "pay back" at least the most urgent parts of our domestic debt (for ecological, modernizing, and infrastructure investments), which are the precondition for a healthy market environment? This depends on the magnitude of these missing investments and, as a result, on how radical the reform measures to deal with them will have to be, or can be.

The economic efficiency of reform measures in turn depends on their degree of acceptance by society. Unfortunately, those measures that are very effective in terms of renewing equilibrium, eliminating imbalances and deformations, in terms of rapidly increasing the amount and quality of production and a positive foreign trade balance are usually not socially feasible, and therefore difficult for the public to accept. On the contrary, measures that are too timid and moderate are more socially feasible, but extend the transition period and push off into the future the positive impact of reforms. The critical criterion is how well a given measure balances effectiveness with social feasibility. This determines the growth rate of national income in the near term. And this in turn determines how rapidly we will have at our disposal the necessary investments and how large the wage resources will be to provide incentives for production and production efficiency, or to support national income growth in future years.

The facts cited above about economic growth in 1990 show that the outlook for 1991 is rather gloomy. For 1992 as well we need to anticipate possible declines in

national income, with flat growth being considered a success. In the years beyond, catching up with neglected ecological and modernizing investments will put a brake on necessary wage incentives for increasing national income. National income growth is the key issue for the length of the transition period and the overall success of the reforms. Calculations of different national income growth scenarios for the next few years at least are essential if economic reform is to succeed.

The role of the government, and its responsibility, is to calculate these scenarios and select the one that is sufficiently effective in terms of reform, albeit painful, yet socially feasible. The main political responsibility of government and the parliament is to recognize when a theoretically effective medicine might turn into a poison if administered in too large doses, and when treatment of a weak patient (using megadoses) might actually kill the patient. Only the development of quantified scenarios can enable us to make an informed estimate of the required duration of a transition period. This is critical if we are to convince society of the appropriateness and necessity for selecting corrective reform measures.

#### **Public Awareness**

"Right at the start we have to meet two conditions if we are to be successful: The entire society must know what awaits us and what the specific reform steps will be, how they will interact, what will be their pluses and the difficulties they will cause." (Program Decree of the Czech Government, 3 July 1990.)

The general public is not that concerned about information as to how individual steps interact. This is the cardinal issue for the government. In our situation what is most critical for the success or failure of reform is the magnitude of the risks (big bang, or step by step) that can threaten its success. The public is concerned, though, about the "positive things reform can bring us," or how long it will have to wait until the basic positive aspects of the reform become evident in daily life. Most of all, though, the general public will be interested in "what difficulties will be involved in the reform," and how long it will be necessary to put up with these difficulties and sacrifices. In this key area, the public is not adequately informed.

The public should have a general knowledge of how much the price of food will increase, and by how much and over what period transportation, rent, and basic forms of energy will increase in price, how much wages and salaries will increase, how much unemployment there is likely to be, and what sort of social compensation is being planned. The public should also be informed as to how much foreign debt is likely to increase.

Closed-door politics breeds mistrust and increases the danger that the political leadership will fail to convince most of the people of the magnitude of the sacrifice required and to obtain their consent, or at least their free agreement so that there will not be mass strikes or, and this would probably be worse, a further decline in

productivity. The objection of certain official economists that the negative consequences of the economic reform cannot be even roughly quantified beforehand must be rejected. If this were the case then economic reform would be an irresponsible adventure, a gamble with the fate of the nation. On the contrary, we must demand from the authors of the economic reform the calculation of basic reform scenarios and specific sub-cases with the understanding that the authors can make a mistake.

#### Risks...

"I am the symbol of an unwritten program." (V. Klaus, LIDOVE NOVINY, 15 October 1990.)

This is true not only of the political but also of the economic reform program. There has been no analysis of risks, or of probable negative consequences in the form of growing social tensions and social rejection, of the possible decline in production and national income formation in the upcoming two to three years. We must differentiate between the immediate consequences that can be corrected in the future, and those that can probably never be corrected. The latter consequences will not be correctable in the sense that the negative consequences outweigh the positive, or because corrective action might result in an outcome worse than that which existed before the economic reform.

After our unfortunate experience with the introduction of a tourist exchange rate, regarding which even foreigners are surprised that we allow them to buy goods at such ridiculously low prices, we cannot overlook the risk inherent in our current one-time, deep devaluation. There is a danger that this will become the basis for the similarly inexpensive purchase of a significant portion of our national property for ridiculously low prices, as is the case with the tourist exchange rate. There is also the related issue of whether "handing out" investment coupons might not actually increase the danger that foreigners will become stockholders in our corporations by obtaining these coupons inexpensively through domestic "front men," as is happening today in the purchase of luxury country homes by foreigners. A similar risk could arise with the dirty money of those who have enriched themselves under socialism. The danger represented by dirty money, in terms of the enormous social polarization between rich and poor, which is worse than under the First Republic, is being criticized from the right by the old power structure, and from the left by the communists, but little discussion has taken place of how to neutralize this dirty money.

When certain Western economists and capitalists praise our economic reform (and its authors) and advise us to implement it quickly, one cannot always avoid the suspicion that this advice is given from less than a completely altruistic position (politically or economically). Foreign capital participation is needed and welcome because it will help us to modernize technologically, but there is also a question of moderation and

regional diversification by country. Mainly, though, we cannot allow ourselves to give away national property for a song.

The sharp devaluation of the koruna in no way corresponds to the current average cost of obtaining marks, and goes far below the current purchasing price of the koruna. But its association with the price deregulation of 1 January 1991 means a huge shock to the existing retail price level. It will necessarily cause exceptional upward pressures on wages. In the best scenario, there will be some unrest, strikes, and potentially even social and economic destabilization. Under the worst scenario, when the government gives in to pressure, there is wage inflation. This leads to further price increases and so on. This then raises the threat of uncontrolled hyperinflation, the pauperization of most of the population, declines in production, enterprise bankruptcies, etc., as is the case, for instance, in Poland.

The deep devaluation step means a major revenue change for most enterprises. Those most negatively affected will be firms dependent on imported raw materials, semifinished goods and components, because the prices of imports go up significantly right away. Then, if these firms are allowed to raise their domestic prices, inflation gets worse. Or, in the worst case, many of these firms begin operating at a loss, declare bankruptcy and lay off many or all their employees. There is a risk that even firms with a future will fail because they are not allowed a predefined period of time in which to adapt to changed conditions by reducing costs, changing their product line and production structure. This risk becomes acute under the announced scenario of severely restrictive monetary, credit, and investment policy.

The same risk exists for exports, although the possible consequences are not so drastic. Exporting firms, all at once, and without any input into the decision, find that devaluation improves profitability. This is true also for those firms that have first become profitable because of devaluation. The danger is that these firms will increase their deliveries for export at the expense of domestic deliveries, which might threaten the completeness of deliveries for domestic industry and for export. This is not an unresolvable problem in the long term, but a quick devaluation can cause more damage than would occur if the transition were made more slowly.

The relatively irreparable damages include temporary and longer term shortages of consumer goods and of material and capital inventories, if these were to lead to serious social unrest or isolated economic destabilization. These shortages will force the politicians to import more than planned quantities to make up for the products in short supply. This does not have to be in the well known areas of toilet paper or sanitary napkins. The threat lies in the extra imports and foreign debt that they imply. The experiences of Poland and Hungary provide sufficient warning of the debt that can be incurred from the importing of consumer goods. Servicing the interest and principal payments on foreign debt is such a severe

task that Poland and Hungary have been paying sums in recent years equal to the sum they borrowed. Poland still owes 40 billion dollars, and Hungary about 20 billion. This level of debt, bordering on insolvency, makes them too economically dependent on Western creditors. We have the lowest foreign debt of any countries of the former socialist camp, which allows us today to stand as dignified partners in the rational choice of capital participation in the modernization of our obsolete capital stock.

Is the public informed concerning how many large firms are threatened with insolvency or bankruptcy, which manufacturing areas are threatened with closure and the laying off of thousands of employees? The political center simply cannot leave this to the enterprises, wash their hands of it and fail to take measures to cushion the impact of such events with centrally administered credit, budgetary, and social and foreign currency measures. At the same time the center should inform the public what all this will mean in terms of increased inflation and foreign debt.

It is possible, however, that price deregulation and market relationships generally are understood apart from each other. In this case as well it is necessary to come to terms with the negative consequences of economic reforms.

There is still one more risk that broad price deregulation in conjunction with deep devaluation (or severe economic "big bang" therapy) will deliver, as a blow, to the economy. There will be unforeseen and unforeseeable difficulties and shortcomings. It is enough to consider the unforeseeable negative consequences and complications that occurred after the seemingly simple decision concerning nonhousing space, or the unforeseen billions in damages that followed the decision concerning tourist exchange rates (even though these should have been foreseen). Even greater complications and damages can occur in conjunction with a complicated problem such as economic "big bang" reform.

"Better days are not coming, everything is stagnant, crisis elements continue to appear...." (The president, LIDOVE NOVINY, 14 October 1990.)

The depressing feeling that this quotation can invoke can be overcome if reform brings a positive increase in national income. Politically, increases in national income in the next few years will determine the course of our extended (in terms of both personnel and generations) revolution, and the extent to which it stimulates or retards increasing effectiveness and production. The critical matter now is to obtain the support of a majority of the people. It is not acceptable, for instance, for two thirds to decide that most of the sacrifices will be borne by the other one third. Now it is probably not possible to change horses in midstream, since so much has been promised for "big bang" reform. It is necessary to note once again the possibility that irreparable economic

consequences may follow if we implement reform blindly, without quantification and alternative scenarios.

In addition to "big bang" economic reform as proposed in the scenario, a variant should be developed that implements reform gradually, in stages. This might include three subvariants for various durations of transition period, such as transition to a market economy in three years, a variant for a five year transition, etc. These variants could be useful if they were prepared in time, or in the event that the "big bang" economic reform turns out sooner or later to be unfeasible or to be causing damage. After a certain time there would be partial retention of certain constraints, allocations, temporary subsidies, etc., that would act to prevent chaos, anarchy, destabilization and thievery from consumers by monopoly and speculative profits.

Rapid, "big bang" economic reform (in contrast to economic reform by stages) threatens the additional danger of taking us from central management by directive to market relationships through the risk of economic losses and anarchy. This could lead to economic voluntarism, such as we knew during the period of normalization.

Today the times are definitely past when union members in blue shirts sing "We Rule the Wind and the Rain...." Today no one will be convinced by the declaration of our economists: "Our intent, which we have declared many times, is to implement an economic reform in a way that does not cause great social stress, high inflation, or even losses of basic social certainties." Our economists must simply accept this as the task they have been assigned. "It's not possible" is not an acceptable response. Our new government was assigned just such a task several months ago from the most senior political leaders.

#### Price, Wage Developments in 1991 Forecast 91CH0217C Prague HOSPODARSKE NOVINY in Czech 12 Dec 90 p 6

[Article by Jan Veverka, Czechoslovak Academy of Sciences Projections Institute: "Without Rose-Colored Glasses: Estimated Price and Wage Developments for 1991"]

[Text] What is the probable impact of a number of essential economic measures on the future development of wages and prices over the next three years? Clearly there are many differing predictions. This article presents one of them.

From early next year price formation will be deregulated. On the same date other factors will clearly begin to have an impact on price developments. The most important of these factors are the transition to world prices and the transition to hard currencies as the basis for our trade with the USSR and other CEMA countries. World prices for crude oil are expected to increase further as a result of

the Persian Gulf crisis. We will be adjusting the exchange rate in order to achieve koruna convertibility in the near future. Finally these factors include the elimination of subsidies to the retail prices paid by the general public for fuels, transportation, rent, and certain other services.

The lay public is curious, and expert observers should attempt to answer the question of the probable impact of the above mentioned, clearly essential, changes on the development of prices and wages, at least for the first two or three years after the initiation of this mysterious (at least from the viewpoint of its impact on family budgets) process. The near term development of our society can, however, be marked by so many new events that any prediction loses its significance if we do not extend it to include a deeper analysis of the deregulation process in terms of the potential for it to turn into something that might be harmful for society.

Such a prediction cannot be linked to a position regarding radical economic reform. The problem simply exists, and the more we know about it the easier it will be to cope with its social and other consequences.

#### **The Finnish Model Has Been Our Example**

We have used the price and wage portion of an extensive econometric model applied by the Bank of Finland to establish our objectives. The model was developed in the context of the international LINK project, directed by Prof. L.R. Klein, and serves to predict the impact of different economic policy measures and possible consequences of potential world economic developments. The parameters of the econometric equations in the model were derived from 1962-82 time series data. These equations therefore reflect the critical events in the development of world prices for energy resources and raw materials, and reactions to them. The working interval is the quarter, and the model incorporates functions for time delays in the reaction of the economy to specific stimuli. These stimuli can be specified at any point in the modelling process. All working quantities will be correlated for the entire period that we want to analyze. In our case we will be monitoring the reaction of the economy to the one time interventions of 1 January 1991, with a particular interest in how long they continue to have an impact and what this impact will be on the levels of selected indicators.

We must divide future development into two classes. The first includes factors that are not directly connected with price deregulation, but which represent changes that will occur concurrently. The second predictive problem is the deregulation itself.

The cost portion of prices will be affected next year mainly by the transition to world prices in our trade relations with the USSR. If we assume that the Persian Gulf crisis will increase crude oil prices to 35 dollars per barrel, then at the former exchange rate of 17 korunas [Kcs] per dollar and at a wholesale price of Kcs1,550 per metric ton the crude oil price index would be 2.80. Estimates of price increases for natural gas and ores yield

price indexes of 1.22 and 1.33 respectively. The impact of these changes on the economy is closely tied to the movement of the exchange rate of the koruna to hard currencies. If the exchange rate remains at Kcs24 per dollar then the price fluctuations cited above must be multiplied by an additional 1.41. The calculation of the impact of these initial factors is made with the additional assumptions that there will be no more changes in world prices or exchange rates, that the corporate profits tax is 55 percent, social security contributions are 50 percent, the interest rate is 10 percent, that the national income will stagnate, and that there will not be high unemployment.

In market economies the assumptions made here would result, after roughly three years, in price increases of about 70 percent and in wage increases of about 28 percent. The impact on these predictions of price changes for crude oil and other material inputs, and of changes in exchange rates, were of approximately equal importance. The greater intensity of the exchange rate impact (increase of + 180 for crude oil and of + 41 for exchange rates) is explained by the fact that the exchange rate really changes the value of all imported goods and services. The ratio of increased nominal prices to wages means a decline in real wages to about 75 percent of their starting point. At the same time it is interesting that the impact of changes in energy input prices alone does not have such a strongly negative impact on real wage development (a decline to about 90 percent of the starting point) as that of currency devaluation (a decline to about 86 percent of the starting point) and that the impact is intensified by their interaction.

The changes that were made this year, along with those being readied for next year in terms of removing subsidies mean primarily upward pressure on wages, and are only secondarily a factor serving to increase production costs. (Uncompensated family expenditures are expected to increase by 7 percent in 1990, and by 15 percent in 1991.) While the impact of this factor alone on wages will stabilize after three years at roughly equal increases of 6 percent, pressure on price increases will be heaviest in industry (increase of about 5 percent) while agriculture and services should be lower, around 3 percent.

#### **Profitability Is Focus of Attention**

The most difficult problem in predicting future development is analyzing the interrelationships and then quantifying the deregulation process. No Western econometric models do this analysis, so there is nowhere to borrow from. The quantifications in this area assume that during deregulation, enterprises above all attempt to form adequate financial resources for their immediate needs and for their future existence. An average level of net profitability (given almost no inflation) that allows the flexible absorption of new technology is considered to be 12-14 percent. In this case we consider profitability to be manufacturing profitability because our capital intensiveness currently fluctuates at a level greater than one. This is clearly too high, but we need to replace a

significant portion of our capital stock. There are also clearly differences between definitions of capital and definitions of production funds. If gross profits are taxed at 55 percent, then the average value must lie between 27 and 31 percent. If we estimate current baseline gross profitability at about 9 percent, then the initial price deregulation impulse represents the difference, which implies an initial price increase of about 20 percent. This estimate includes the further assumption that the resultant price increase will also increase the initial relative share of gross profit needed to cover procurement at the new prices. In other words, an enterprise must attempt to achieve a 30 percent gross profit in the initial as well as subsequent prices, which may increase by a factor of two or three.

The mechanism for the values generated by this change is taken from the econometric model mentioned above. Using this apparatus it is possible to quantify the impact on changes in prices and wages, taking into account a broad range of direct and mutual links and those consequences that always occur with a time lag.

Analytical calculations indicate that the price level at which the deregulation process must stabilize is exceptionally dependent on the profitability figure that our manufacturers will be able to achieve. The following table shows this relationship for the industrial sector at the end of a three-year period.

**Dependence of Price on Profitability  
(in percent)**

Net profit-ability	11	12	13	14	15	16
Price increase	48	66	76	89	123	325*

\* Price level does not stabilize.

A proper and exhaustive interpretation of the value of achieved profitability is very difficult. It is closely tied to cost levels at which enterprises manufacture today, to their ability to conserve materials and improve labor productivity. It is also true across the board that if we do not prevent enterprises from meeting financial needs by misusing their monopoly position on the market, where there are no limits to attaching desired profits to current costs, price deregulation will result in a strongly diverging trend. Based on the current behavior of our manufacturers it can be stated that it will not be enough for competitive pressure to be "appropriate," it will have to be really strong.

For further analysis we assume that the conditions in which enterprises find themselves will not permit them to turn price development into uncontrolled inflation. Even in this scenario the pressure of their interests stabilizes profitability at around 13 percent. This value corresponds to the above mentioned international comparison. The figure can be higher if we succeed in reducing current costs.

In economies with market behavior an analogous change impulse (such as increased interest rates) would stabilize with price increases of 69-74 percent and wage increases of 29-31 percent, and would lead to a decline in real wages if about 22 percent.

#### Cumulative Influences

Finally we must try to estimate the cumulative impact of all the above mentioned influences.

The greatest price increase is experienced by services that increase by about 237 percent, followed by agriculture (about 219 percent) and industry (about 183 percent). Wages will probably increase most rapidly again in services, by about 109 percent, followed by industry (about 100 percent), with agriculture showing the smallest increase (about 81 percent). Actual price and wage increases will certainly be different, but hopefully will not differ much from these predictions. It is very likely that real wages will decline by 30-35 percent. Calculations show that even liberal regulation measures for wages do not hold much danger of inflation. This factor does not have as great an impact as monopoly behavior by manufacturers. It only postpones the eventual achievement of equilibrium and that equilibrium is at a higher level. For example, in industry a one percent increase in nominal wages results in an increase in nominal prices of 0.7 percent. Development in other words is almost parallel, and does not have a turning point.

The cumulative impact of multiple factors does however reduce the profitability turning point, as indicated in the table above relating profitability to price deregulation. In a calculation that takes into account all factors with an impact after 1 January 1991, this turning point is just 14 percent net profitability (assuming that costs do not decrease). Without regard for the absolute value of these figures, we can state that increases in the extent of intervention makes the price and wage system less stable, which in turn necessitates more complete regulation.

#### Complete Wage Deregulation Delayed, Discussed

91CH0217D Prague HOSPODARSKE NOVINY  
in Czech 12 Dec 90 p 6

[Article by Otakar Nadhera: "Wages To Continue Being Regulated"]

[Text] Preliminary information on economic conditions for next year indicates that some form of wage regulation will be applied in government and cooperative organizations. This will be a new, uniform type of regulation in which taxes will play a major role.

The opinions of our own and foreign experts concerning the need for central regulation of wages differ. For instance, Prof. Milton Friedman, the famous American economist, made the following comment on this issue during a recent trip to Prague: "Some things must be done gradually, but price deregulation, eliminating wage

controls, deregulating exchange rates and allowing entrepreneurship in all areas should begin immediately, and continue from day to day." This recommendation sounds good to most of our workers and their union spokesmen, especially in view of the expected price deregulation and in conjunction with the well known low wages paid to our relatively well qualified work force. Is then the decision of our own economists correct, to ignore the above opinion on price deregulation of a Nobel Prize winner in economics?

The decision to retain wage regulations is based on an analysis of our current conditions. It must be noted that enterprises have not been utilizing their authority to regulate wage and other personnel costs in a way that reduces costs in the desired manner or to improve their own economic position. The main criterion for choices between a standard reduction in wage requirements and a reduction technique utilizing the system of wage rates has been the attainment of the greatest possible amount of available wages payable resources. At many firms the formation of wages payable resources even declined early in this year in comparison with prior years, while their use during the same period increased. Enterprises utilized mainly residual amounts from prior years in bonus funds, in other words resources transferred there based on the fulfillment of already forgotten quantitative indicators. This means that firms exist whose management is "going from ten to five", while the millions remaining in bonus funds would allow them, if wages were deregulated, to give preference to short term goals, by paying out everything under the "after us comes the flood" system. Nor are work force savings always necessarily a reason for increasing wages. After all, reducing the managerial staff does not necessarily improve labor productivity or output. Both of these are in fact falling. Decisions are being made about these large wages payable sums by senior enterprise offices, which under the circumstances will not be immune from self interest.

Full wage deregulation provides incentives for productivity and free labor movement, but also requires the existence of a competitive environment, which at present does not exist here. Labor and highly qualified employees at Plzen or Martin heavy engineering firms are certainly underpaid by international comparison, but their salaries also reflect the marketability of the final products. If we allow the unregulated development of wages, costs will again increase and therefore prices as well. Wage deregulation might best be started at small, private firms and firms with foreign capital participation, in other words where wages literally come out of someone's pocket.

In our heavily monopolistic environment where competition is lacking wages cannot be understood as a matter exclusively for enterprises. The immediate and full deregulation of wages would lead to inflation. Moreover, in the context of a total regulated volume of wages payable, enterprises have the opportunity to differentiate wages and develop their own wage policies based on employee performance.

### Central Bank, Others: Functions Listed

*91CH0256A Prague HOSPODARSKE NOVINY  
in Czech 28 Dec 90 p 8*

[Article by Josef Duchacek, Czechoslovak State Bank: "The Czechoslovak Banking System"]

[Text] On 1 January 1990 the Czechoslovak State Bank [SBCS] was divided into a "new" SBCS, which operates as the central bank, and three independent commercial banks (the Commercial Bank of Prague, the Universal Credit Bank of Bratislava, and the Investment Bank of Prague); that provided an institutional foundation for the development of a standard two-stage banking system (the central bank, commercial banks, and savings banks). However, the long-lasting underestimation of financial and currency relations and of the function of commercial and savings banks, the detachment from the development of world banking systems, the de facto elimination of all competition in banking by the centrally planned economy had led to consequences and problems that are evident above all as:

- low level of competition in commercial banking and excessive fixation of individual commercial and savings banks on certain types of customers, kinds of financial banking services, and territories delineated predominantly according to the two republics;
- inadequate furnishing of banks with their own assets;
- a considerable part of risky or poorly accessible assets, which the banks cannot cover because they lack the necessary capital reserves;
- insufficient range and quality of bank services offered to customers; inadequate density of the network of branches and brokerages;
- inefficient banking information system;
- lack of institutions and mechanisms necessary for truly efficient operations of the credit system (commercial promissory notes; exchange arbitration; use of securities and collaterals to cover credits due, etc);
- understaffing, and inadequate training of personnel for new tasks; lack of knowledge of banking know-how; inefficient educational system and training to upgrade the bank employees' qualification;
- inadequate furnishing with efficient and reliable computer technology, buildings, and necessary technical banking environment;
- untested mechanisms for the management of banking operations and for affecting on the quality of our currency;
- no alternate methods for obtention and allocation of financial resources in the market of financial funds.

The Czechoslovak State Bank is the central bank of the state whose responsibility is to safeguard the purchasing

power of currency, manage currency circulation, payment contacts and accounting in our country, and to implement foreign exchange policies. Therefore, it must be powerful, independent and efficient. Legislative issues are now being put in their final form in the draft of the law on central bank, which will replace current law No 130/1989 of the Collection.

All Commercial and Savings Banks operate state wide. However, at present the deployment of their branches is determined by the development in the past, or as the case may be, by the stipulated principles for delimitation of operations by the former SBCS. As in the case of the law on central bank, legislative issues are now being finalized in the draft of the planned law on banks, which will replace the heretofore applicable law No 158/1989 of the Collection. Both laws are intended to become effective at the same time in the first quarter of 1991, to deal unequivocally with basic economic problems of the Czechoslovak banking system, and moreover, to react to the changes in the new concept of the Federation. This legislative amendment to the so called bank laws (among which is the law on foreign exchange) is imperative for the development of the Czechoslovak banking system according to market principles.

The Commercial Bank of Prague and the Universal Credit Bank of Bratislava are state financial institutes of a similar type. They were organized by the delimitation from the former SBCS which also is their founder. The volume of their assets gives them the first (Commercial Bank) and third (Universal Credit Bank) places among our commercial and savings banks. In the credit market of the CSFR the share of the Commercial Bank equals 51.2, and the share of the Universal Credit Bank 10.5 percent.

Main problems of their operation at this time include above all the high volume and share of nonstandard (risky and hard to use) credits and a unfavorable time structure of assets and liabilities. Among the positive and stabilizing factors of their operation are particularly the network of branches (although it is inadequate as regards organization, deployment and technical terms), relatively stable cadres of bank employees, and established relations with enterprise patronage.

The Investment Bank of Prague is a state financial institution. As of 1 January 1990, its operations were expanded and part of assets and liabilities of the former SBCS were assigned to it; its founder is the Federal Ministry of Finances. It is a universal bank whose operations are focused on financing, credits and control of investments—tasks specified by the state plan, financing and crediting of selected integration programs, financing of housing construction, release of funds from the state budgets of the Federation and of the republics, and of state and other funds, control of their efficient use, and management of Czechoslovak securities. Its share in the CSFR credit market amounts to 12.9 percent.

Among its specific problems are especially its lack of its own payment and accounting contacts, their solution by authorizing the Commercial Bank and of the Universal Credit Bank to manage their accounts and a specific type of credits for the comprehensive housing construction of a distinctly public character.

On the other hand, the advantages of the investment bank may be seen in the fact that it is less encumbered with previous structures, methods of operation and the problem-ridden assets of the former SBCS than the Commercial Bank and the Universal Credit Bank, and in its potential for a rapid development of dynamic operations in conjunction with its relatively adequate resources.

The Czechoslovak Commercial Bank is a joint stock company with headquarters in Prague, branches in the CSFR, four independent representations abroad, and three representations incorporated in foreign trade sectors. It is a universal bank authorized to conduct foreign exchange transactions. Its particular focus is on contacts for international payments; moreover, it provides financing for the central source of foreign exchange. It holds a 5.3 percent share in the credit market of the CSFR. Its most crucial problem is its current number of employees which it cannot expand because it cannot obtain new premises for its operations. It finds it very difficult to meet the increasing demands of its customers.

The Bank of Trade is a state financial institution with headquarters in Prague and a branch in London. Its founder is the SBCS. It focuses primarily on managing financial transactions with foreign countries for private customers. From the Investment Bank it received in 1989 the portfolio of foreign securities and state-guaranteed Czechoslovak loans of foreign exchange; it is the accounting center of the CSFR for Eurochecks issued in Korunas [Kcs].

The Czech State Savings Bank [CSTSP] and The Slovak State Savings Bank [SSTSP] are state financial institutions with central offices in Prague and Bratislava and with an extensive network of branches and agencies. These financial institutions are focusing mainly on deposits and loans to physical persons. Their founder is the appropriate Ministry of Finances of either republic. The CSTSP shares 5.6 percent, and the SSTSP 3.2 percent of the CSFR credit market.

The Agrobank, Joint Stock Company, in Prague is a bank with foreign capital partnership. It launched its operations on 1 July 1990. It is a universal bank, although thus far it is not engaged in transactions in foreign currency. Its share in the CSFR credit market equals 1.2 percent.

The Slovak Tatra Bank in Bratislava exists de facto only formally because since 1 January 1990 it has been considered a state financial institution in the sense of the law on banks and savings institutions. Its founder is the

SR Ministry of Finances. The general purpose of economic operations of this bank has not been determined.

The Tatra Bank, Joint Stock Company, in Bratislava, a bank with foreign capital partnership, began to operate on 1 October 1990.

The Pragobanka, Joint Stock Company, in Prague started to operate on 1 October 1990.

The Skala Banking House, Joint Stock Company, in Prague with foreign capital partnership, and The Ekoagrobanka Joint Stock Company in Usti nad Labem began to operate on 1 November 1990.

The Slovak Agricultural Bank, Joint Stock Company, in Bratislava thus far has no foreign capital partnership; it will begin operation on 1 January 1991.

The Ekobanka, Joint Stock Company, in Kromeriz will begin to operate with foreign capital partnership on 1 January 1991. The Postal Bank, Joint Stock Company, in Prague will begin to operate with foreign capital partnership on 1 January 1991.

Nine additional applications for the establishment of new banks have been filed with the SBCS.

To complete the listing of the Czechoslovak banking system, it should be added that the number of representations of foreign banks now opening is steadily increasing, such as:

- Societe Generale, France;
- Reiffeisen Zentralbank, Austria;
- Vneshekonombank, USSR;
- Ljubljanska banka, Yugoslavia;
- Dresdner Bank AG and Deutsche Bank AG, FRG;
- The Union Bank of Finland;
- Citibank N.A., USA.

Thus far foreign banks have been represented in the CSFR only as agencies. At the same time they (especially the German, Austrian, French, and Italian) also show interest in higher forms of partnership in the CSFR, especially as joint banks. Evidently, of the greatest importance is the founding of a joint bank planned by the Commercial Bank in Prague with Societe Generale in Paris.

#### **Economic Drawback to Slovak Independence Examined**

91CH0247A Bratislava PRACA in Slovak 14 Nov 90 p 3

[Article by Gustav Lesyk: "Illusions and Reality—Economics and Visions of Slovakia's Independence"]

[Text] The discussions and public squabbles about the law on the Slovak language that follow the attempts to

glorify Dr. Jozef Tiso as well as to conjure rose-colored memories of the Slovak state are fomented by some self-appointed patriots whose mouths spout harangue and whose minds covet aid. For the Slovak, the only result of all this is a waning interest of foreign investors in the economy of the Slovak Republic, which comes at the very moment when we are at the beginning of a thorny path of its transition from a totalitarian system to a modern, liberal system.

This reality compels every judicious and responsible person to stop and think about the saga of the Slovak state, about today's reality and about the consequences that would ensue should the visions of our contemporary romantic dreamers be realized.

It is an indisputable fact that the Slovak state meant the birth of an independent statehood of Slovaks and that it reinforced their self-esteem. However, it must not be forgotten that it was the outcome of the political situation in Europe in those days and a result of pragmatic considerations and actions on the part of the political leaders of Hlinka's People's Party at that time. That state was created in the context of a systematic liquidation of the independence of small European nations, and of the genocide of those ethnic and religious groups that were inconvenient to Hitler's policy of expansion. Nevertheless, during its brief life, up to its tragic end, broad strata of the Slovak nation regarded the Slovak state as something like an oasis of tranquility and relative prosperity. For that reason, to this day many of us, particularly our inexperienced young people, consider the Slovak state a bright star shining in the dark sky of today's realities.

If we are not dreamers but realistically thinking sons of our workworn fathers and mothers, especially if we consider the substance and causes of its alleged economic prosperity, we must clearly see that the Slovak state was the creation of a dark era in European history and that it had no future. It was only because of the pragmatists in charge of the economic life in the Slovak state, such as the president of the Slovak Bank, Karvas, and expert economists Zatko, Fundarek, Briska, and others, who, by the way, were of the Czecho-Slovak orientation, that our national wealth was not looted and plundered. Because those men ingeniously guarded Slovak economy and took advantage of wartime prosperity, the living standard of Slovaks not only did not decline but on the contrary, it escalated.

In the 40 years after the war profound changes took place in the political and economic situation in Europe, especially in its eastern part where the Stalinist political economic theory and its practical implementation destroyed the very foundations of state economies in that area, and therefore, the seemingly bright image of the Slovak state retreated into the twilight of a fairy tale world.

The danger of the fuzzy dreaming about an independent Slovak republic as a successor of the Slovak state compels every realistically thinking person to look straight in

the eye of the current situation and to assess it as pragmatically as our ancestors always used to do in times of danger.

The economy of the Slovak republic, which is the foundation and the precondition for the survival of the Slovak nation, is in absolute shambles. It stands on the unsteady feet of its mining, metallurgical and heavy engineering industries, and has neither processing and finishing industries nor advanced trades and services.

Such a situation and orientation of the Slovak industry cannot be blamed on the Czechs, as some economists and politicians of the Slovak National Council are trying to do, but most of all on Slovak political leaders, economic managers, experts and scientists and on those who were engaged in the sector of management during the past totalitarian era and who often applied political pressure with nationalist undertones to force through the construction of such industries in Slovakia, because for them that economic policy helped consolidate their position and promised a rapid improvement of Slovakia's living standard, regardless of future consequences, according to their motto: "After us the deluge!"

This historical experience with disastrous decisions on vital, especially economic decisions that disregard future consequences, should serve as a warning for those who speak pleasantly about gaining independence with the aid from our overseas countrymen but who are trying to break apart the federation of the republics of our two nations that are bound together by their history, economy and culture.

We must realize that even in terms of economic reality, the existence of an independent Slovak Republic is a mere illusion which, should it be ever translated into reality, would lead to the destruction of the independence of the Slovak nation.

For nothing more than economic reasons, after the breakup of the federation Slovakia would be unable to exist as an independent state. It would have to seek new partners with whom it could join in a new state. In this particular case, the only logical solution would be a united state with the Hungarian Republic or with Poland. In terms of economy, it would mean jumping from a frying pan into the fire—a constitutional decline to the status of a younger brother; in terms of our nationality, it would be a suicide!

On the other hand, our separation from the Czechs would rid them of unending ethnic frictions, free their hands for competition in European economy, and consequently, rapidly improve their living standard. Only the names of Kollar, Stur, Hlinka, Stefanik and other Slovak patriots of the past and present would evoke in them tender memories of their past coexistence with the Slovak nation.

Pretty speeches about the fraternal help from our overseas countrymen are now gone with the wind and those

who relied on their deeds are now standing here empty-handed, misled and misleading with their pretty words about the rosy future of an independent Slovak republic as the successor of the Slovak state.

## HUNGARY

### Industrial Policy With World Bank Assistance

91CH0302D Budapest NEPSZABADSAG in Hungarian  
28 Dec 90 p 9

[Article by Zsuzsa Regos: "Industrial Policy With World Bank Assistance—Dictation"]

[Text] The casting of roles instigated by the forming of a cabinet in May caused no small difficulties to the ministries. The Ministry of Industry and Commerce also has had difficulty in finding its place on the program listing. To top it all off, all of the bankruptcies of the country are handled by this ministry. They have complained many times that their means are insufficient to ameliorate the situation. Understandably, this is of no particular interest to the citizens. Rather their curiosity focuses on the question of whether the apparatus is at last capable of coming forth with an acceptable structural policy—one that can be implemented.

There is such a program, according to deputy state secretary Dr. Balazs Botos. They have already developed a short-term and a long-term strategy. The plans for the near future were dictated by World Bank experts—who knows under what consideration. In December, two delegations from the organization paid visits at the ministry. At their recommendation, the ministry selected a group of 15-17 enterprises. Implementation of a program based on a decided structural transformation, privatization, and technical development [program] will soon begin in these enterprises on an experimental basis. (Originally they prepared a list composed of 30-40 enterprises. In the end, there remained those who volunteered to be part of the list based on a recognition of their own interests.) The World Bank's committee to prepare the loan will arrive on 10 January; at that point specific tasks will be negotiated with the ministry and the State Property Agency [AVU].

The program involves two matters. First of all: money. This will be provided in part by the World Bank itself, but they also expect support from the European Bank for Reconstruction and Development which begins operations next spring. The Phare aid package offered by the European Community is also part of this. Others also are likely to join—like the Japanese, for example. The exact details of this have not been clarified for the time being. Intellectual and technical assistance is of essence as far as World Bank involvement is concerned. One should not be particularly ashamed of this fact. Hungarian professionals are not competent in bankruptcy management and privatization. At this time, they are reading foreign case histories, they may travel abroad to gather experience. With the World Bank's support, they may acquire

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5 February 1991

the skills of providing advice—a skill for which enterprises pay heavy amounts to foreign experts.

A special organization was established under the ministry's jurisdiction to directly forward the proceeds of loans and aid to the addressees. Except for handling fees, it requests nothing in exchange. They are even willing to underwrite certain risks and guarantees in the interest of the users. As recommended by the World Bank, the ministry is establishing a crisis management organization. This organization will buy, make competitive, then sell enterprises which face bankruptcy proceedings or liquidation but which do not find themselves in hopeless situations. The ministry and the AVU are being accused (with increasing frequency) that they squander state property. Namely, many firms could be sold at much higher prices if they were first assisted in developing a more modern production and organizational structure. World Bank officials claim that the hasty character of Hungarian privatization must be replaced by a far more conscious policy that has been thought through more thoroughly.

The deputy state secretary believes that a privatization law must be enacted within six to eight months. The World Bank agrees. A single set of conditions of general applicability would facilitate the clarification of state ownership. Until such time that a privatization law is enacted, those who develop the program suggest the establishment of holding companies that manage property, because as of today, not even the individual roles to be played in this important process are clear. The AVU guards state property and designates enterprise commissioners, but the actual operation of state property is not among the functions of the AVU. That is being accomplished by supervisory committees designated by the ministry. The cradled firm, and through that, the country may get into trouble if the sickly child gets lost among the many midwives.

## World Bank Loans

Purpose	Agreement Signed	Amount in Millions of Dollars	Status
Energy streamlining	1983	109	Depleted
Export development	1984	110	Depleted
I. Carbohydrate program	1984	90	Depleted
Fine chemical industry program	1985	73	Depleted
Power plant reconstruction	1986	64	Still available
I. Industry structural transformation program	1986	100	Still available

## World Bank Loans (Continued)

Purpose	Agreement Signed	Amount in Millions of Dollars	Status
II. Energy streamlining program	1986	25	Still available
II. Industry structural transformation program	1987	150	Still available
Technological development	1988	50	Still available
III. Industry structural transformation program	1989	140	Still available
III. Energy streamlining program	1989	10	Still available
Energy development	1989	100	Still available

## Indecision in Planning of 1995 World Exposition

91CH0302C Budapest TALLOZO in Hungarian No 51, 21 Dec 90 p 2404

[“Excerpts” of articles published in NEPSZABADSAG, MAGYAR NEMZET, and HETI VILLAGAZDASAG; page numbers not given: “Expo-sed”—first paragraph is TALLOZO introduction]

[Text] A new turn of events relative to the Budapest-Vienna world exposition: The cabinet decided not to support the idea of organizing the Expo without the concurrence of the Budapest Capital City Autonomous Government. The mayor of Budapest will submit this issue at the next meeting of the Budapest General Assembly. Meanwhile, Government Commissioner Etele Barath and Austrian Minister of the Economy Wolfgang Schussel submitted a request to the International Office of World Expositions in Paris to conditionally register the 1995 exposition. The Office accepted the request.

## We Are Wavering

(....) The cabinet has decided not to make a decision regarding the joint Vienna-Budapest world exposition. It chose to follow that popular Hungarian solution: To delay what cannot be delayed, and what will become unavoidable sooner or later, even though it is very well aware that a yes or no answer will have to be given sooner or later. One can understand, to a certain extent, the wavering manifested by the cabinet. In part, because a favorable decision can hardly be made in this matter, the only alternative is to make the least unfavorable decision. Choices that have to be made between bad or worse affects the country either way. The country will suffer if in its present economic situation, it agrees to accept a burden that exceeds its strength, if it takes the

position of supporting the idea of the world exposition. But the choice is even worse if it stops short in the face of the first great obstacle as well as opportunity—the opportunity to be part of Europe's economic community. (...) The cabinet's wavering is understandable, because the publicized resolution adopted by the Capital's autonomous government further increased uncertainty surrounding the world exposition. The decision made by the autonomous government already represented a quasi solution. This is so because one could hardly regard the statement contained in the resolution as sufficiently thorough enough to be appropriate with respect to the world exposition. 'The General Assembly finds it necessary to continue to examine other possibilities and concepts that may replace this function at a later date....' (...) Two choices exist regarding the world exposition: either to have it, or not to have it. There is no substitute for the world exposition. One result may certainly be achieved by delaying the decision, and that is the full deterioration of our own credibility. (...)" ("Hungarian Decision"—NEPSZABADSAG 11 Dec)

#### Winking

"(...) They discussed the matter of not discussing the issue of whether there will be a world exposition in Budapest. This statement may be somewhat exaggerated, nevertheless it does not overstate the peculiar Hungarian situation of not being able to make a final decision. The cabinet is awaiting a decision from the capital city's General Assembly, the latter, however, is not willing to accept any ill effects of a possible rejection, according to repeated statements made by the mayor. Because one may count on ample apprehension for surrendering this 'huge' opportunity for none other than Budapest. (...) Thus, it comes as no surprise that we cannot open the gate fully, nor can we close it shut, and that we are winking toward the Austrian party through the narrow crack that was left open. (...) There really is no need for us to look toward Vienna. The responsibility to make a decision is ours. The extent to which we are prepared to make that decision is yet another matter. Judging from the stalemate that has evolved, we are scarcely prepared to make a decision. At least this is the semblance that the tactic of shifting responsibility between the cabinet and the capital city confirms. (...)" ("Stalemate"—MAGYAR NEMZET 13 December)

#### There Is Fog

"(...) People who claim to be well informed say that Austrian Chancellor Franz Vranitzky called the Hungarian prime minister and told him that Vienna will no longer regard Budapest as a partner unless a decision is made this week. They will organize the Expo jointly with Pozsony [Bratislava]. Is this indeed true? The existence of such a telephone conversation was not confirmed officially. Other well-informed people claim to know that one wing of the Hungarian Democratic Forum [MDF], the largest party in the ruling coalition, suddenly turned against the world exposition because Budapest voted for the liberals. Well-informed sources quote the

alleged view of this party faction as saying that the city, managed by the Alliance of Free Democrats [SZDSZ], should not receive extra funds for the world exposition. Is this true? The persons involved did not confirm that they thought that way. (...) Let us assume that we cancel the world exposition. Let us assume that we do not cancel the world exposition, but that the Austrians cancel the world exposition, to our greatest relief. What will happen in 1995? Even a person with an average fantasy is able to provide an answer. The Hungarians will certainly travel to Vienna (and perhaps to Pozsony) to say: 'well, if we had done this....' (...) Because in 1995, in Vienna, (and perhaps in Pozsony) the Hungarians will attribute everything that is good and nice to the world exposition, and will curse the cabinet of 1990, the mayor of Budapest of 1990, for depriving him of this Canaan in which milk and honey flows. We are very apt to curse previous cabinets and mayors. The truck is rolling in the fog. And yes, there is fog. But once the fog rises, the truck will have to roll at 120 kilometers per hour. Some day the fog will rise. (...)" ("Eating the Fog"—NEPSZABADSAG 13 December)

#### It May Be Rejected

"(...) The capital city General Assembly decided to once again discuss the matter of the world exposition on the 20th. At the same time it called upon the cabinet not to make any commitments on behalf of the capital. Following consultations with the Austrian Government, the cabinet decided to file a provisional application for registration with the BIE [International Bureau of Exhibitions] general meeting—the international office of world expositions—to organize a world exposition in 1995. We learned from world exposition Government Commissioner Etele Barath that the positive acceptance of this request may be regarded as certain. (...) The capital city decisionmakers' freedom to act would not be restricted as a result of this solution, because a provisional application to register does not rule out the possibility that the capital city rejects the idea of the exposition. If that happens, the cabinet will not support the idea either. (...) A provisional registration also provides the advantage of allowing time to settle proprietary relations. In principle, it would suffice to submit the final application for registration to the BIE by next December [1991]. The other advantage provided by provisional reporting is that more time is left to obtain funds to accomplish needed infrastructural developments. (...) It is hoped that a stalemate situation will not evolve after the provisional registration is accomplished. In political circles, one hears statements to the effect that an investment focused on the capital, with its liberal voters, could become a burden to the MDF, which has its eyes on voters in the countryside. On the other hand, the SZDSZ is presumably concerned that a successful stimulation of investments could increase the popularity of the ruling coalition. (...)" ("Etele Barath on the World Exposition"—HETI VILAGGAZDASAG 15 Dec)

**Proposed Law To Govern Central Bank Described**

*91CH0302B Budapest FIGYELO in Hungarian  
20 Dec 90 p 22*

[Article by W.I.: "The Hungarian National Bank: Forward With a New Law"]

[Text] A legislative proposal concerning the Hungarian National Bank [MNB] will be presented to parliament in the near future. Once enacted, the legal situation and functions of the central bank, as well as the means needed to perform these functions, will be fixed in legal provisions of the highest order.

There are several reasons why the time is right for parliament to debate and to adopt a law governing the MNB. One is that in a market economy, the management and creation of monetary regulatory effects plays an outstanding role. The other reason is that at present the activities of the MNB are governed by several laws and decrees.

In adopting the law, parliament will sanction the importance of using monetary means to realize economic policy goals and to regulate the market character of economic processes. The MNB influences money and credit supply and demand through central bank actions taken in regard to financial institutions. As a result the MNB must achieve a monetary balance, and must provide for the preservation of such balance. Thus it contributes to the establishment of an economic equilibrium in the country. This constitutes a tremendous responsibility and demands extremely broad authority.

The MNB's primary function and obligation established by law is to protect the forint's purchasing power both internally and externally. This translates into the pursuit of anti-inflationary policies. The MNB could hardly perform its task unless this takes place in conjunction with fiscal policies and with external economic, industrial, and agricultural policies. But within that, the MNB must preserve the independent profile of monetary policy and an appropriate sphere of decisionmaking, while enjoying and accepting temporary clashes with other spheres of interest within the economy.

The central bank's role will fundamentally change. In the framework of economic policy, the MNB previously performed a role that was subordinate to the budget. It automatically served the state household and financed its deficit. About 70 percent of MNB's resources were used in the form of credits to finance the budget deficit.

Throughout the world, central banks are the banks of the state. They manage the administration's money flow, they finance deficits and utilize surpluses. But the manner in which it is done, and the extent to which they perform this function makes a difference. A new feature of the legislative proposal now being prepared is that the automatic financing of budgetary deficits will be discontinued. The central bank will be able to grant automatic credits only up to a level of three percent of the budget

revenues, and this only by charging the basic interest rate charged by the central bank. In other words, the rather favorable interest rate charged when financing the state budget will be discontinued. The financing of budgetary deficits greater than three percent of the revenues will be subject to parliamentary approval of a cabinet request to that effect. In the future, the central bank will resolve the problem of financing state indebtedness by using market-oriented methods, by selling and managing securities.

As a result of the more stringent deficit financing criteria prescribed for the central bank, projections must be observed more closely in the course of managing the state budget. Two reasons necessitate this requirement:

- One cannot tell to what extent the central bank will be able to sell securities representing the state's indebtedness on the money markets.
- As a result of high interest rates, running a budget deficit will be expensive and will result in a reduction of income that is available for distribution.

Accordingly, the law reflects an intent to radically reduce in the future the redistribution role played by the budget, and to thus increase the weight of monetary relations in the economy. To accomplish this, however, state administrative reform and a law governing the state administration which conveys such reform measures are also needed.

Thus far, the MNB has served as the bank of the government, and not as the bank of the state, in the broader sense of the term. In the future, the MNB will be an independent financial institution accountable to the National Assembly. It will report annually to parliament concerning its activities, and will present to parliament annual policy guidelines related to money and credit.

As a result of the new law the MNB will require new basic rules. These have already been developed. These rules establish the fact that the MNB is a stock corporation, and that all of its stock is possessed by the state. In this sense, the central bank is the bank of the state. The state is represented to the extent of 60 percent by two National Assembly committees, and 40 percent by the Ministry of Finance.

The function of the central bank is to create money; to create the process of emission which expresses the creation of money. The law declares the legal character of money and its obligatory acceptance in Hungary, and contains rules relative to the use of bank notes.

For many long years the MNB simultaneously performed the functions of a central bank and a commercial bank. The law clearly terminates this situation and leaves the function of financing the economy by banks to financial institutions. This is accomplished by prescribing to the central bank that the regulation of money and credit supply and demand be accomplished through financial institutions.

The law specifies the means that the central bank may use to perform its monetary tasks. One such means is by refinancing. With refinancing, the MNB discounts, and rediscounts securities—primarily notes—but provides credit by using securities as a collateral, and based on swap agreements [as published].

The prescription of mandatory reserves, and the changing of the extent of mandatory reserve levels is also an important part of the tools available to the central bank. The MNB designates to banks the ratio of funds obtained from the banks' foreign resources that must be held by the central bank. The central bank also mandates the ratio of all instruments which constitute the bank's solvency reserves, and these instruments must be acceptable to the central bank. By changing the reserve and solvency rates, the central bank narrows and expands the supply and demand of money and credit.

The law provides that one of the important factors used by the central bank to exert its influence is the interest rate. The MNB uses various types of interests: fixed and variable interest rates, and within these, the basic interest rate, the daily money market rate, the preferential interest rate and the penalizing interest rate. The law governing the central bank enables the designation of certain ceilings for market interest rates. Moreover, the central bank is authorized to determine the maximum interest rate differential the banks may use. In general, the changing of interest rates is within the sovereign decisionmaking authority of the MNB, but it must notify the cabinet in advance if it changes the basic interest rate.

Foreign exchange rates are essential elements of the regulatory tools available to the central bank. The law provides that the MNB set the exchange rate of the forint against foreign currencies. On the other hand, determining and influencing exchange rates depends on agreements reached with the cabinet. In this regard, to a certain extent, the law is more cautious than what exists in present practice, according to which the MNB may devalue or appreciate the forint within a five percent margin on its own. In the future, any change in the exchange rate would require an advance agreement to be reached with the cabinet.

The above listing of monetary tools is not complete. Still, these tools would not be able to successfully serve the balanced functioning of the banking system and the maintenance of stability regarding foreign exchange, if in the future, the state budget draws away resources to such great extent from the monetary sphere, if the process of overdistribution prevails in the economy, if prices and wages do not convey supply and demand conditions, and if the functioning of the market is inappropriate. Unfortunately, these facts will continue to hold true in 1991, and thus the enforcement of the spirit of, and the requirements established by the law will demand hard work for a longer period of time.

### Kupa Expresses Optimism at MGK Meeting

91CH0302E Budapest MAGYAR NEMZET  
in Hungarian 17 Dec 90 p 4

[Article by (haller): "The Hungarian Economic Chamber Operates in a Federated Form"]

[Text] "I want to return to the people and to the country their self-confidence," Finance Minister designate Mihaly Kupa told the first meeting of delegates of the Hungarian Economic Chamber [MGK] Saturday. The Chamber is changing to a federated system.

Kupa responded to an invitation made on short notice, thus, he delivered his extemporaneous speech virtually in shirtsleeves, to gentlemen wearing neckties. Kupa stressed that he had confidence in the talent of the people, but their self-confidence must be regained. What is known of his progressive plans is that he wants to reduce above all the overhead expenses that burden society, i.e., he plans to downscale the bureaucracy. This, he wants to accomplish parallel with the transformation of the tax system. Regarding the latter, Kupa announced that neither a tax reduction nor a tax increase is the issue. He and his associates wish to develop a fair system of taxation instead.

"Fairness is the magic word. In this case, it means that all those who compete in the marketplace are equal," Kupa said, while underscoring the fact that stringent monetary policy in the absence of changes in the market may choke the economy.

"In Saturday's newspaper, Viktor Orban expressed a lack of comprehension as to why I accepted this assignment. I experienced the same shock in another wing of the Association of Young Democrats [FIDESZ], in the words of my 14-year-old daughter. My own experience convinced me that we have tremendous economic opportunities. Significant enterprises, like General Motors, recognize some fabulous investment opportunities in Hungary. For this reason, they are engaged in strategic planning for a 10-year period." Speaking of external relations, the minister designate recognized the attribution of an equal rank to both Eastern and Western economic relations as the most important principle.

MGK chairman Lajos Tolnai did not encourage excessive hope at the meeting. He said that an increasing rate of income concentration, the acceleration of privatization, and the broad application of the bankruptcy law will squeeze the enterprises like a vise. Also, next year [1991] the interest groups may look forward to performing a more difficult job because we may expect to see intensifying conflicts of interest. "The MGK must prepare itself to face the fact that in some instances, only hours will be available to formulate a position. The taxi blockade proved this to be true." The MGK chairman called attention to the fact that in its actions, the cabinet did not commit itself to accomplish an immediate turnaround, and that to this day, the cabinet is overdue with the presentation of long-term concepts. Proprietary

reform could not be left out from among the current topics touched upon. In this regard, Tolnai said that there was no way to provide any kind indemnification to former owners. Privatization must be based on a long-term program, which builds on voluntary action taken by the autonomous governing bodies of enterprises, rather than on immediate, forced changes. External intervention should be prompted only if the agreement does not conform to the standard performance expectation that was mutually agreed upon in advance.

The delegates approved the chairman's report and voted in favor of a federated form of Chamber operations. They also took a position in support of having a world's fair, because in their view, this was a one-time historical opportunity which cannot be repeated.

**Government Bureaucracy Hampers Firm's Success**  
*91CH0302F Budapest HETI VILAGGAZDASAG*  
*in Hungarian 1 Dec 90 pp 75-77*

[Interview with FOTEX chairman and president Gabor Varszegi by Gyorgyi Kocsis; place and date not given: "FOTEX-Analysis: Mistaken Part"—first paragraph is HETI VILAGGAZDASAG introduction]

[Text] A few weeks ago the FOTEX [film enterprise] stock issue caused a great storm. It showed the number of wounds from which the Hungarian capital market was bleeding. A capital market which was supposed to be able to accept privatization, now now suffers from the privatization that takes place in almost mass proportions. The wounds: primitive legal provisions, superficial decisionmakers, and amateur traders. Everyone suffers as a result of all this. Not only do the offended investors who lost confidence suffer, but also the issuer of stock who finds himself in a cross fire. This was revealed in a discussion we had with FOTEX Chairman and President Gabor Varszegi.

[Kocsis] The issuance of FOTEX stock started out mostly as a victory march. During the taxi blockade which paralyzed the country, people stood in line for two things: bread and FOTEX stock. Do you regard this as a normal reaction?

[Varszegi] I dare to presume that people in daily contact with FOTEX recognized not only the six year performance record of our firm, but also the fact that FOTEX did not obtain its strength from taking over existing state enterprises. It was a tiny, small plant which started out with 10 million forints in capital stock, and now operates as a professional private enterprise with a capital stock of 3 billion forints. Quite naturally, we must also recognize that the demand was influenced by the experience of the IBUSZ [Touring, Money Changing, Travelling, and Shipping Co. Ltd.] stock issue last summer. It incited people to engage in short-term speculation.

[Kocsis] The victory march did not last long. Many developed a bitter taste because of the unorganized

manner in which the subscriptions to the stock were administered, and because of the delayed introduction at the stock market.

[Varszegi] You put it mildly. The disappointment was tremendous. Most investors were, of course, unaware of the fact that for no small amount of money—generally for an amount representing 3-5 percent of the total amount of the issuing price—the issuer commissioned a trader so that he involved others in selling his stock on the market, because the issuer himself had no authority to do so. All the mistakes made by the trader reflect upon the issuer. The lack of experience manifested by some traders caused us to suffer extreme moral damage, while it caused no small financial loss to investors.

[Kocsis] One could also say that your statement constitutes a shifting of responsibility. Was it not your job to select those involved in the issuance of stock by using appropriate circumspection?

[Varszegi] I recognize as my own mistake the fact that I did not assess the situation appropriately. The institutional system of the Hungarian securities market is not yet prepared to smoothly administer a stock issue which generates so much public interest. Even the seven brokerage firms regarded as the most professional in Hungary do not possess the infrastructure required for the administration of such a stock issue. On the other hand, it is also a fact that the prevailing legal order places coarse obstacles in the path of the smooth issuance of stock. First of all, contrary to the practice followed in developed countries, traders in Hungary are not permitted to accept orders for stock subscription prior to the beginning of the actual subscription. It then follows that buyers must stand in line if interest in a given stock issue is great. Second, in the framework of some misconceived pseudo democracy, the law provides that subscriptions must be taken for at least two days. All the FOTEX stock that was intended to be sold had been subscribed to within the initial one or two hours, thereafter, the brokerage firms were fully aware of the fact that all the rest of the people were standing in line in vain, and yet they were obligated to accept money from these people. The third obstacle is that in order for a person to provide a sell order to an agent, he must be in physical possession of the stock, whereas nothing would be more simple—or cheaper for all concerned—than to perform transactions based on securities accounts opened at brokerage firms. Finally, in Hungary, a brokerage firm cannot maintain an interest paying account, because to do so would qualify as a banking activity. However, as I mentioned before, they are obligated to accept moneys from prospective investors even if they are certain that there will not be enough stock to satisfy all of these investors, and under these conditions they may hold the money and not pay interest for several weeks. I believe that this restriction exclusively serves the purposes of banks whose interests conflict with the stock market, because it is obvious that investors withdraw money for the purchase of stock from their bank deposits.

[Kocsis] Why do you blame the traders if their hands are tied to this extent?

[Varszegi] A few members of the consortium interpreted the term "small investor" in a totally unrealistic form, guided by a misconceived "sense of justice." When the huge excess subscription became known, members of the consortium had to make a decision concerning the distribution and the allocation of the volume of stock that was limited in value. In the course of this action, some traders regarded people who wanted to purchase stock for 8,000 or 10,000 forints as small investors, whereas today, multiples of these amounts are required for the establishment of a small enterprise. In my view, a small investor is one who is not an insurance company and not the social security administration, i.e., a person who does not buy stock worth 50 million or 200 million forints, but buys stock for 50,000 or 100,000 forints. The allocation of stock turned into a scandal because several traders required more than the available volume of small denomination stock in order to effect distribution at the low level it was squeezed down to. This could have occurred only as a result of failing to read our prospectus. Even the day after the subscription, piles of our prospectus' that were not picked up by the members of the consortium were available at Girozentrale. In this prospectus we accurately described the division of the various denominations in which the stock was printed, and we did not establish these ratios at the spur of the moment.

[Kocsis] Were not both the investors and the traders disturbed by the fact that FOTEX offered stock in a rather small, 100 forint denomination in the Hungarian market?

[Varszegi] Investors are obviously not at fault for not being sufficiently familiar with the functioning of a normal securities market, but the traders hardly have an excuse. The purpose of the 100 forint denomination was not that we wanted to distribute the stock in units of 100 forints. We established the 100 forint denomination in order to permit easy sale even if the value of this security shows a long-term increase in worth. For example, had FOTEX established itself in those days with stock issued in a 10,000 forint denomination, based on our growth, the price of a single share today could be as high as 3 million forints, and this would obviously limit the saleability of the stock. On the other hand, if the nominal value is this low, combined denominations must be issued so that investors do not receive a ton of paper—this, in a country where the physical transfer of stock is mandatory. Incidentally, our founding charter provides that at the request of a stockholder, we will exchange his stock for smaller denominations. Quite naturally, the stockholder would have to pay the cost of this transaction.

[Kocsis] An additional cold shower came when it turned out that the trading of stock at the stock exchange could not begin as promised, on 7 November. In what respect was this FOTEX's fault?

[Varszegi] FOTEX was at fault insofar as it could not figure out in advance what the Stock Exchange Council had in mind. I even wonder about the fact that the Stock

Exchange Council has banker members whose interests are contrary to trading securities. We knew, just as they knew, that the Court of Registry determination concerning the subscription to the increased capital stock would be in our hands at 1000 hours on 7 November. Thus, in principle, trading at the stock exchange could have begun at 1100 hours. Aware of all this, the Stock Exchange Council made a decision 24 hours before the scheduled time to the effect that this document must be produced 24 hours prior to the time when the stock is introduced. We obviously could not comply with this requirement, yet, the requirement was made applicable to us on a retroactive basis.

[Kocsis] As far as the composition of that body is concerned, FOTEX also has something to correct in this matter, because as the prospectus reveals, an associate at Girozentrale who trades contrary to the rules is also a member of the supervisory body of your firm.

[Varszegi] The Stock Exchange Council that approved our prospectus was aware of this fact. We are now once again reviewing the position they took earlier.

[Kocsis] In any event, FOTEX was not introduced at the stock exchange even on 8 November, because the State Securities Oversight Authority [AEF] postponed the approval of trading at the stock exchange until 12 November. What naughty thing did you do at that time?

[Varszegi] The AEF handled this matter with good intentions, but it did not know where to go next. On the one hand, there were those who rightfully wanted to do business because they were in possession of stock, while on the other hand, we found those who were not prepared to do business because of the confused allocation, and thus, an unequal opportunity would have evolved. Meanwhile of course, it became clear that the longer they delayed the introduction of the stock, the more secondary trading would take place outside of the stock exchange. In the end, even though nothing changed from a practical standpoint, the AEF recognized that a greater problem would be incurred by postponing the issuance of a permit. Incidentally, after that, a bank wanted to postpone the introduction of the stock. The bank's lawyers appeared at the AEF and asserted a prepurchase right on part of their client, based on a legal provision. Fortunately, it was revealed on time that this advantage provided to banks did not apply to joint enterprises.

[Kocsis] Investors were also made uncertain by the fact that FOTEX did not become part of the "registered" stock that is considered to be most secure. It only became part of the less "elegant" stock, the so-called traded stock. This, even though the prospectus promised the former status.

[Varszegi] Once again, the Stock Exchange Council interpreted its rules retroactively. Our prospectus states that we provide a prepurchase right to our former owners up to the extent of 60 percent of the 500 million forint issue, but they too would have to purchase the stock at the announced 199 forint issuing price. The Stock Exchange Council met and decided to view only the remaining 220 million part of the stock issue as a publicly traded issue, and this amount was not sufficient to place our stock in the

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5 February 1991

"registered" category. Not to mention the fact that they did not inform us of this principle previously; the decision was unwarranted even as far as its substance was concerned, because those exercising the prepurchase option could have acquired stock under the same conditions as the "people from the streets." I do not know the extent to which they were aware of the fact that this inflicted the greatest harm on us, because we are preparing to trade our stock on Western securities markets. Contrary to the situation in Hungary, in Western markets, the column under which a firm's stock is listed in Hungary is very important.

[Kocsis] The nightmare peaked as a result of the fact, that contrary to anyone's expectation, the FOTEX trading rate at the stock exchange did not repeat the fireworks displayed by IBUSZ. To what extent did you anticipate that?

[Varszegi] In light of the developments, I regard as a miracle the fact that the trading rate of FOTEX stock did not drop below the nominal value. We carefully prepared the issuance of 500 million forints worth of stock. We did not want to flood the market with FOTEX securities, we agreed upon this with our previous stockholders. Not counting the part designated for the prepurchase option, and not counting the 40 million forints worth of stock our employees received, and the 80 million forints worth of stock offered at the Vienna securities market, we intended to sell 100 million forints worth of stock in the Hungarian market. Despite

this, immediately prior to issuing the stock, one of our owners sold 48 million forints worth of FOTEX stock at nominal value to our workers. It is apparent that if someone sold the stock he purchased for 100 forints, at the 199 forint issuing price, he will have doubled his gain. I still do not understand what triggered this action. It is obvious that this supply of stock broke down the trading rate at the stock exchange. It deprived all old and new owners of FOTEX stock from expected profits, including the one who sold that stock. It is equally true that one could not prohibit anyone from even set on fire his own stock, let's say. Thus, people who speculated in the short term lost out, but those who viewed the more distant future will not be disappointed. This can be seen already from the renewed rise in the trading rate. Sooner or later, a real securities market does reveal how much a firm is worth.

FOTEX Owners  
(on 13 September 1990, the date of establishment)

	Millions of Forints	Percent
Blackburn Interna-tional	1,300.8	50.00
Skala World Trade	528.0	20.29
Fenyszov	480.0	18.45
Forte	228.0	8.76
Skala-Co-op	40.8	1.57
Fotex Inc.	24.0	0.93
Total	2,601.6	100.00

## FOTEX Ltd. Sales and Profits

	1985	1986	1987	1988	1989
Millions of Forints					
Sales (net)	80.0	220.0	293.5	418.9	531.1
Profits before taxes	50.0	150.0	133.0	205.3	239.4
Dividends	29.6	87.9	75.9	119.9	160.8
Number of outlets	2	3	5	7	9
Number of employees	19	38	75	90	105

\*Legal predecessor to FOTEX Inc. [as published]

## FOTEX Inc. Interests

Name of Firm	Year of Establishment	Present Basic Capital or Capital Stock (in millions of forints)	FOTEX Share in Percentages
Azur-Unio Inc.	1989	146.2	96.0
Kristaly Ltd.	1989	55.5	30.0 (50.0)*
Europtic Ltd.	1989	234.0	50.0
Proficolor Ltd.	1990	1.0	30.0 (37.5)*
Multivizio Ltd.	1990	71.0	45.0
Eurodiamond Ltd.	1989	50.0	25.0

\*On 26 September 1990, the State Property Agency and FOTEX Inc. reached an agreement for FOTEX to buy the 20-percent share of FOTEX Ltd. owned by the state. The change in ownership ratio has not yet been registered by the Court of Registry.

Source: Stock issue prospectus

Venture Capital

As in every stock prospectus prepared pursuant to rules, as is the case with FOTEX's prospectus, one must analyze the risks involved in the activities of the enterprise. We quote from this statement:

1. Too fast expansion. Along with the present number of employees and management size, the excessively fast expansion of the FOTEX group could render direct control difficult and would make quick decisionmaking impossible.
2. Real property ownership conditions. In the absence of a land law, the legal status of rented premises is unclear and may constitute a financial risk, because one cannot tell in advance whether the rented premises will have to be purchased at a later date.
3. Declining standard of living. A further decline in the standard of living in Hungary will constitute an essential risk factor with respect to the FOTEX group only if the purchasing power of the most affluent strata shrinks significantly.
4. Competition. The profitability of FOTEX, Inc. is outstanding, even if measured on an international scale. The company's activities may generate interest in several investors. Increased competition may reduce the company's profits.
5. Declining foreign tourism. A significant part of the customers (about 20 percent) consists of tourists. The corporation's sales may be adversely affected if the World Exposition does not materialize.
6. Preparation and auditing of an international financial statement. When this prospectus was prepared, the firm did not have a financial statement audited pursuant to Western standards. Such a financial statement may indicate a weaker balance than the financial statement prepared pursuant to Hungarian accounting standards previously anticipated. The corporation is in the process of negotiations, and its 1990 financial statement will be audited pursuant to Western standards.
7. Legal proceedings. No legal proceedings against the company are in progress. During the past two years, and at present, there are no legal proceedings against FOTEX Ltd.—the legal predecessor of FOTEX, Inc.—the outcome of which could significantly influence the financial position of the company.
8. Minting coins. A permission from the Hungarian National Bank is required for this planned activity of FOTEX, Inc.

ROMANIA

Dijmarescu on Prospects for Economic Reform

91BA0235A Bucharest *TINERETUL LIBER*  
in Romanian 22, 23 Jan 91

[Interview with Eugen Dijmarescu, minister for economic orientation, by Nicolae Iliescu and Doru Lionachescu; place and date not given]

[22 Jan pp 1, 3]

[Text] [TINERETUL LIBER] The first question was suggested to us by the title of your ministry. Do you establish the orientation of Romania's economy, or do you merely implement the government's orientation?

[Dijmarescu] Alternatives for the orientation of the economy are hammered out by the National Commission for Economic Planning, Forecast, and Conjecture, a body that is under my direct coordination. So far we worked out three alternatives for 1991, the last of which was adopted by the government. In point of fact, these alternatives are forecasts for our economic development in 1991 and they have nothing to do with the plan, in other words, they don't allocate anything to anyone. All we do is tabulate resources and needs, and according to that we evaluate the parameters within which the industry, agriculture, services, and social indexes—everything to do with culture, education, etc.—will move.

[TINERETUL LIBER] What methods are used for the purposes of economic orientation?

[Dijmarescu] The methods we now use to steer the economy are of a legislative nature. Currently, during this period of transition, our methods of economic orientation are geared to the need to educate the autonomous administrations and commercial companies formed by the changeover of former state units and private firms. For this reason economic orientation is a controlled process. Because of this control the government is compelled to issue an avalanche of decisions on a daily basis. Practically speaking, for each paragraph or article of a new bill passed in Parliament we have to issue a specification, usually in the form of a governmental decision. I reiterate, as an executive body, we have to ensure that the movement of the economy along the line of reform is a controlled process.

[TINERETUL LIBER] As far as we know, a country's economy is generally steered mainly through fiscal and monetary measures. Has the Romanian government discovered a new system?

[Dijmarescu] No, not at all. Fiscal methods, which we, too, are employing, have to be implemented through

administrative means; for example, we must propose a bill to establish fiscal brackets, then issue a decision based on that law regarding tax exemptions and so forth. Evidently, the levers used to carry out the reform are solely economic, not administrative.

[TINERETUL LIBER] Mr. Minister, what are the priority targets of our economy in the year that has just begun?

[Dijmarescu] There are no essential departures this year from the priorities of the past year. Thus, our priority areas are: agriculture, which this year will experience what we call "the great privatization," more precisely investments in land amelioration; continuation of investments in energy projects; and economic infrastructure projects. A string of social welfare and education sectors will also be given priority. These are the areas which in 1991 will draw most of our funds in the form of budget allocations. We must, however, specify that not even in priority sectors can all investments be financed solely from the budget, because just to continue the investment projects underway we need 95 billion lei, whereas the budget can provide only three billion. Where does the rest come from, you will ask. From own funds, amortization funds, and bank loans. Here is where we run against the most delicate issue: Securing a bank loan requires the borrower to prove that his investment project is viable. In the future the banks will give money only to those from whom they are certain to get it back, with a small profit, of course. When it comes to foreign credit the situation is even more difficult; we have an open line of credit for investments in the amount of \$700 million, for which foreign banks no longer accept amateurish feasibility studies. It was because of this kind of damaging dilletantism that we missed being able to utilize a good number of the credit lines opened in the first half of last year. In other words, we weren't able to persuade Western bankers that we could handle the money borrowed. To ensure that such a situation is not repeated we decided to work together with economic agents on hammering out convincing feasibility documentation for the investment projects that we view as most important.

[TINERETUL LIBER] Now that you mentioned feasibility studies and a certain order of priorities, how did the decision to import Airbus planes come about, who decided that they were needed, since you did not list aviation among the priorities?

[Dijmarescu] The feasibility study was done by Tarom and it was correct.

[TINERETUL LIBER] We were referring, however, to a feasibility study within the overall context of the Romanian economy, in view of the fact that some declared priorities are being neglected with the most painful effects for the population. In other words, who decided

that 40 percent of the hard currency reserves we inherited should go to purchasing airplanes rather than, for example, to agricultural investments? That was the sense of our question.

[Dijmarescu] Last year \$500 million were invested in agriculture. We estimate that to get our agriculture on its feet it needs a transfusion of about \$600 million yearly in the form of imports, for a period of two or three years. We allocated the agricultural sector an equivalent amount under last year's balance of payments. So I don't think that the amount earmarked to buy the Airbuses will deprive any priority sector of the funds we think it urgently needs.

[TINERETUL LIBER] Let us go back to the field you coordinate; do you think that there can be any economic orientation before the issue of ownership has been resolved?

[Dijmarescu] At this stage economic orientation must meet two basic needs: On the one hand, it must ensure that the form of ownership is changed, i.e., that the former state enterprises are transferred to the private sector, and on the other hand, it must not allow enterprises to die in the process of ownership changeover. We are now at a very advanced stage in the formulation of a privatization law which we will soon submit to Parliament. The most recent version of the law was sent to an international group of legal experts and we hope to get their comments by the second half of this month. This law will start up the mechanism of ownership transition in large industries.

[TINERETUL LIBER] In the second part of the interview, the first question that Minister Dijmarescu will be invited to answer will be: "Do you believe that in a democracy the fish begins to stink from the tail or also from the head, as ancient wisdom has it?"

[23 Jan p 2]

[Text] [TINERETUL LIBER] Before we began the interview you told us that the government has been notified of flagrant law violations in the implementation of price liberalization measures. At the same time, you admitted that no measures have been taken against enterprise managers who set new prices not according to the law. Consequently, the problem is who is responsible for the progress of the reform. In other words, Mr. Minister, do you believe that in a democracy the fish begins to stink from the tail, or also from the head, as ancient wisdom has it?

[Dijmarescu] The fish always begins to stink from the head, regardless of whether it is in a democracy or dictatorship. But there is one thing I would like you to consider: As an executive body, the government does not own the enterprises, so at least in principle it does not have the latitude to fire managers. Since for the time being the share holder is the state, who can fire them, it has to be represented by three delegates as the law requires. On the other hand, I'll give you another

example so you can understand the complexity of the problems we face at this stage: The Ministry of Resources and Industry, which administers everything except agriculture, everything that is produced in this country, has to handle more than 3,000 enterprises, more than 8 million prices...

[TINERETUL LIBER] Who established this structure, who is responsible for this oversized area of responsibility which we understand is too much for the capabilities of the ministry?

[Dijmarescu] When we started in June we decided to reform the state apparatus from an institutional viewpoint, too, so as to dispense with the need for 40 ministries and to pare down the bureaucracy. Now, half a year later, we realize that we have too few people, who are overloaded. Nevertheless, the main problem lies elsewhere: You see, laws are passed and the government issues decisions that in theory should be followed or at least read by everyone, or at least by those in charge of implementing them—enterprise managements, trade unions, etc. Until now no one told us that it was urgently necessary to fire this or that incompetent manager, that's the paradox. We noted that the trade unions have a tendency to side with the managements in situations in which economic enterprises can make larger profits than in the past, even if the profit is not honestly obtained.

[TINERETUL LIBER] Socialist state property was established and developed as the property of the entire nation, whereby the communist state was only its administrator. In that situation, is a decision concerning the future of former socialist property taken without consulting the nation still legal and final?

[Dijmarescu] Property is a concept that theoretically should be regulated by the constitution. I am, of course, referring to form of ownership. The problem is whether this basic issue should be resolved by the people or by their elected representatives, namely by Parliament. In every democratic regime Parliament constitutes the element of stability.

[TINERETUL LIBER] Right, but this kind of stability is based on extensive consultation of the people on major issues, and in Romania the form of ownership is a major issue.

[Dijmarescu] I think that you would do best to take this issue up with Parliament, not with the government, which is an executive body. Personally, I am positive that currently, at this phase of incipient democracy, we

should go with the alternative of representative democracy, because explaining to everyone what it means to vote one way or another in a referendum may take a very long time.

[TINERETUL LIBER] It has been repeatedly said that Romania's basic problem today is the economy. Along this line, do you think that a government run by engineers can find the best solutions to this problem?

[Dijmarescu] Economic activities are carried out more by engineers than economists. If we consider the structure of personnel in enterprises, there is no doubt that the engineers are more numerous than the economists. The problem is to make people act in keeping with the reform. The government is not made up only of engineers, ours is a government of reform technicians, no question of technocrats. I assure you that when it comes to the economy, the government's decisions are based on proposals made by economists.

[TINERETUL LIBER] Mr. Minister, what is the impact on your current activities of the antieconomic measures taken for blatantly electoral purposes by the provisional government?

[Dijmarescu] I have to admit that they were a painful legacy. Take for example what was done in the first half of last year, when practically all our hard currency reserves were spent, thereby bringing us to the present difficult situation. We took a series of measures to control imports in the second half of the year, compelled to do so primarily by the fact that we no longer had the kind of disposable hard currency we had immediately after the Revolution. Secondly, the concessions made about certain pay demands and paying back social shares led to increases in the people's disposable cash reserves out of proportion with the commodities available, thus creating inflationist pressures.

[TINERETUL LIBER] How do you feel now, more than half a year since the beginning of the economic reform program?

[Dijmarescu] At the moment I have to tell you I'm very worried. The international situation is very tense and can deteriorate from one day to the next; we no longer have the hard currency reserves we had at the beginning of last year; domestic crude oil output dropped and so did the output of natural gas; electrical power production fell below capacity, so the question is, what do we do? Do we continue to borrow money to finance imports, or do we cut down on economic activities? That is currently the government's dilemma.

**CZECHOSLOVAKIA****Reinstitution of Classical Studies Discussed**

*91CH0275A Prague LIDOVE NOVINY in Czech  
8 Jan 91 p 6*

[Article by Martin Steiner: "On the Future of Latin"]

[Text] Recently, classical philologists from all over the CSFR met at Liblice to discuss the current status and future of classical studies in our country. The discussion resulted in clear support for the requirement to return Latin and the fundamentals of ancient culture to our high schools and resulted in a call for cooperation among all individuals and institutions which can contribute to the fulfillment of this difficult task. Coordinating commissions were established for this purpose for both republics. Participants in the conference welcomed the initiative involved in the establishment of an Association of Middle School Teachers of Latin. An important

part of the program also involved the teaching of Latin at advanced schools; in other words, not just a matter of classical philology per se, but a number of subjects in the humanities, as well as medicine and some natural sciences subjects which cannot get by without a knowledge of Latin. It can be expected that the appropriate faculties will require their applicants to have a knowledge of Latin. There was also talk of publishing Latin texts by our authors (particularly those of Master Jan Hus and J.A. Komensky) because this activity is part and parcel of caring for our cultural heritage; similarly, translations both of ancient texts and also those commemorating our Latin literature must be considered as important contributions to the development of national culture. One of the areas of classical study is also the specialized processing of ancient memorabilia in our territory; in this direction, it will be necessary to support efforts for their comprehensive research and for making them accessible to the public.

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